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**TRADE OPPORTUNITIES IN THE PACIFIC RIM**

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Y 4. C 73/7:S. HRG. 103-912

Trade Opportunities in the Pacific...

**HEARING**  
BEFORE THE  
**SUBCOMMITTEE ON FOREIGN COMMERCE AND  
TOURISM**  
OF THE  
**COMMITTEE ON COMMERCE,  
SCIENCE, AND TRANSPORTATION**  
**UNITED STATES SENATE**  
ONE HUNDRED THIRD CONGRESS  
SECOND SESSION

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JULY 26, 1994

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Printed for the use of the Committee on Commerce, Science, and Transportation



U.S. GOVERNMENT PRINTING OFFICE  
81-672 CC WASHINGTON : 1995

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For sale by the U.S. Government Printing Office  
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402  
ISBN 0-16-046597-4



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# TRADE OPPORTUNITIES IN THE PACIFIC RIM

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TUESDAY, JULY 26, 1994

U.S. SENATE,  
SUBCOMMITTEE ON FOREIGN COMMERCE  
AND TOURISM OF THE COMMITTEE ON  
COMMERCE, SCIENCE, AND TRANSPORTATION,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 2:10 p.m., in room SR-253 of the Russell Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: Ivan A. Schlager, senior counsel, and Troy H. Cribb, professional staff member; and Kevin M. Dempsey, minority staff counsel.

## OPENING STATEMENT OF SENATOR KERRY

Senator KERRY. Good afternoon.

This hearing of the Foreign Commerce and Tourism Subcommittee will come to order.

I apologize for our delay, but as I think you know, we are voting on the Senate floor, after a historic joint session and luncheon, which I must say was remarkable in all respects. We have had the privilege of hearing two of the most extraordinary speeches in a groundbreaking joint appearance about an area that has obviously consumed the resources and energies of this institution for many, many years. So, I think we are all celebrating.

I want to thank Mr. Garten for being here today, particularly in view of the fact that I know you have just returned from Asia this past weekend, and it is the middle of the night for you right now, so, we are going to work overtime to keep you awake.

The purpose of the hearing today is to discuss our national strategy for increasing exports and trade with Asia, and to look hard at the question of our foreign commerce efforts in Asia.

Last November, when President Clinton went to Seattle for the APEC summit, he signaled a refocusing of U.S. attention and effort on Asia. It is something that I and many other people welcomed. And President Clinton showed that it would arrive both diplomatically as well as economically.

As we all know, the economies of the Asia-Pacific region are the fastest growing economies in the world. We pay a great deal of lip-service to that reality. And today I would like to examine to some degree the full measure of our efforts to make our policies commensurate with the lipservice.

According to the World Bank, by the turn of the century, Asia, as a whole, will account for one-half of the growth in world trade.

And the President rightly saw the importance of Asia now, that we live in a world in which economic strength is a crucial component of a nation's ability to influence and lead other nations, and in which exports play an increasingly important role in domestic economic growth.

We also talk a great deal about the transition in the workplace. And the question is often asked, Where are the jobs? While clearly many jobs will be created domestically in some of the so-called critical technologies and even in other areas of the service sector and so forth, a great many jobs will be created in exports.

Japan and other countries long ago woke up to the fact that most of the development will occur in the underdeveloped and less developed countries. And most of the products purchased over the course of the next quarter century or more will be purchased in those countries.

It occurs to me and perhaps to others who are observing our efforts that in the months since the last APEC summit, the face that we have shown to Asia has largely been the old American face, sometimes of the bully, often of the ultimatum, particularly to Japan concerning its egregiously closed market. We have threatened MFN removal if China did not clean up its human rights record. And we have been vocal in criticizing Singapore's justice system and other economic barriers in the region.

These were and remain—and I want to emphasize this—these were and they remain legitimate concerns of the United States and, indeed, of the international community. It was certainly appropriate to raise them. But the question will increasingly be asked as to what the most efficient mechanisms are for pressing these concerns in the world.

My frustration is simply that in using the rhetoric that we have used and in focusing our attention on Asia only when there is a crisis, we have conceivably diminished the hopes that we were finally recognizing the significant economic accomplishments of the region and, indeed, planning to treat Asian partners as partners, as full partners.

The message that we have given over the past few months has at many times seemed to be that the United States still only knows best and that all others should fall in line. In giving that message, I believe we raise many questions about our policy and about our ability to indeed remain the force that we want to be, to have the influence that we clearly would like to have. And we may in fact have lost an opportunity to build some important bridges.

Please make no mistake about it, it is my perception, and I think most would agree, that Asians want us involved in Asia. They want our Government involved and they want our businesses there. Yet we have left the market primarily to the Japanese and even, on occasion, to Europeans.

When I travel in Asia, and I have done so repeatedly over the past years, people ask me, whether in Hong Kong or Bangkok or Jakarta or Beijing, "Where are the Americans? Where is the United States? We do not see you here. We see and feel the Japanese but not the Americans."

The responsibility for taking advantage of the export opportunities in Asia clearly lies with the private sector. But we can, and

I believe we must, help. When I was in Hong Kong and China in the early part of the year, the resources that were available to work with potential American exports, I discovered, were woefully small. I spent time with our Foreign Commercial Service officers in Hong Kong, who lamented to me that they were overwhelmed by the magnitude of the opportunities that they saw and their total inability because of resourcing and staffing to be able to pass those opportunities on to American companies.

Indeed, they indicated to me that we were losing billions of dollars of business because of our inability to connect certain opportunities to businesses.

The purpose of this hearing is to determine what the administration's strategy toward Asia really is, what it ought to be, and what they have done thus far.

The Trade Promotion Coordinating Committee was specifically established in order to coordinate the export promotion activities of the 19 or so Federal agencies involved in helping U.S. companies to sell overseas. That committee was first introduced in this sub-committee by Senator Rockefeller when he was chairman. We have since tried to strengthen it, and I believe now it is time to see if the TPCC is producing results in one of the most important target regions.

One measure of the effectiveness of the TPCC is to determine whether or not it is effectively reallocating resources from lower priority export promotion projects to higher priority ones, such as telecommunications markets, for example. And I am particularly eager to hear, Mr. Secretary, how you might be preparing a new budget for export promotion priorities and about your new initiatives, such as the big emerging markets initiative.

Another measure of the effectiveness of the TPCC is whether it is effectively spreading out the welcome mat to U.S. companies, so that they are less nervous about investing in Asia.

For example, when I was flying over to Hong Kong, my seatmate was a Massachusetts exporter, by chance, who I met for the first time on the flight. And we were talking. He was a very small exporter, but he told me that he had stumbled into his activities, and that he was personally struck by the lack of available support services, and despite the fact that he was engaged in this kind of export activity, he had never heard of the Foreign Commercial Service and really did not know how to go about contacting them.

He told me that he thought it would be wonderful, as did other small business people that I have come in contact with, if the United States had services available for exporters so that they could get basic information on foreign markets and could help them with contacts overseas.

I would call to the attention of the Secretary that I have tried to create a business center in Tokyo, and it is my hope that we will do so in other parts of the region—Hong Kong, Jakarta, perhaps India, Malaysia—that each of these would greatly assist our businesses to be able to make market determinations that they cannot afford to make on their own because of the potential downside. But if they were aware of the market, with the support services available, it would enable them, without Government support or sub-

sides, simply to take advantage of those opportunities that have been identified.

There is a great overhead issue and if these kinds of centers were also available for conferencing and meetings or even trade shows, et cetera, it would greatly facilitate our presence in the market and reduce the sometimes difficult capitalization issues for these companies to be able to get started. It is clear that other countries have determined to do this.

When now-Vice President Gore, then-Senator Gore, Senator Wirth, and I were in Rio at the Earth Summit, a story I have told previously, we were struck by the fact that at the Earth Summit, with 140-plus nations present, and leaders from all over the world regarding the environment, there were only about 35 American companies there looking for business and opportunities.

To our consternation, there were more than 700 Japanese companies formally accredited to that conference. And that was just 2 or 3 years ago. That is a small indicator of the differential between our presence and other people's presence.

It seems to me that there are enormous opportunities for us, and I know that wherever I went in Asia—and I say this not disparagingly one iota, because others are taking advantage of the opportunities as they see them—but many, many people were lamenting the lack of American presence and the lack of a sense of our really taking Asia seriously.

I do believe the Commerce Department has made strong efforts, and I congratulate you, on trying to do what you can do with limited resources. And if this is a resource issue, then it is vital for us not to be penny wise and pound foolish. And I think we need to understand that, which is one of the purposes of this hearing today.

It just does not make sense to forgo two \$60,000 or \$80,000 a year salaries and whatever support services are attendant to that and miss out on \$100 million contracts. It is the dumbest thing I have ever heard of. And so we need to really come to grips with this question of opportunity versus rhetoric and what we are going to do over the course of the next months to guarantee that we are truly translating American trade policy into a genuine felt presence in the fastest growing markets of the world today.

So, I welcome you here today, Mr. Secretary, for this inquiry, and look forward to your opening comments.

#### **STATEMENT OF JEFFREY E. GARTEN, UNDER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE, DEPARTMENT OF COMMERCE**

Mr. GARTEN. Thank you very much.

I think that it is a wonderful idea to have these hearings. You have already raised such large issues that I am straining to figure out how we can cover them in a short period of time.

Let me just start by saying that I think this is a very special moment to be talking about our Asian strategy. On the one hand, the Clinton administration is really the first to focus on Asia with the commercial lens. And I think that when President Clinton took his first trip abroad and went to Japan, talked about the Pacific community, and when he invited the leaders of APEC to Seattle, he

signaled something that was long overdue, and that is that our economic and commercial interest in Asia have been woefully neglected for a long time.

But this is a special moment. We have very important negotiations underway with Japan. We are entering the post-MFN period with China. The APEC organization is in its very formative stages, and we have a great opportunity, particularly this year, to make a contribution to its evolution. And the big emerging markets of Asia—Korea, the greater China area, Indonesia, India—hold some of the greatest promise for American exports and, by extension, for the generation of jobs in the United States.

I have prepared a statement which is in three parts, and which I would like to submit for the record.

The first briefly reviews where we are, where we have been with the negotiations with Japan under the framework agreement. The second part focuses on export promotion in Japan, above and beyond the framework. And the third part of the statement discusses the broader Asian picture and our relations with Japan in that context.

As you mentioned, I just returned from 2 weeks in Asia—1 in Japan and 1 in China. And these issues are very much on my mind, and I look forward to answering your questions.

Let me just say a few words about each of the three parts of my statement. First, on Japan, I think it has to be said, merely because everyone recognizes that there are trade tensions, that Japan is a critical ally of the United States, that our relationships with Japan go well beyond trade, and include very important security and political interests, and that the trade imbalances which exist have to be seen in this broader context of what I think is our most important bilateral relationship.

The framework agreements, as you know, were designed to give us a conceptual framework for dealing with several different issues with Japan: the whole question of economic stimulus, the question of deregulation, sectoral issues such as telecommunications, automotive, medical equipment, and also areas of joint cooperation.

I think it is fair to say, to date, there has been some progress on the cooperative projects. We have signed agreements in the area of environment and population cooperation, and we have made good progress when it comes to access to technology and intellectual property rights, all of which are detailed in my statement.

We have made much less progress on the market access issues in various sectors, particularly automotive, government procurement and insurance. The key issue, as you know, Senator, is that we are focused on measurable results, and exactly how you measure the results has been one of the areas that we have not been able to reach agreement on with the Japanese.

But, beyond the framework—the framework gets a lot of attention—but, beyond the framework, there is a need, as I believe you signaled, to think about very vigorous and very aggressive export promotion. And we have been giving a lot of thought to how to revitalize our export promotion efforts when it comes to Japan. We have recently begun to refocus these efforts in a whole range of areas, and I would like to just talk about a few underlying themes here.

One is that we have not in the past focused clearly enough on objectives with regard to export promotion in Japan. We have tended to respond to just companies that come in the door, and we have not really had a long-term strategy.

We are attempting to change that now. We are attempting to ask the question: If you look at Japan over the next several years, what are the underlying trends? Where are the areas that we are convinced there will be growth and there will be demand for foreign goods and services? And how do we get in?

One of the areas we have begun to focus on—I would like to mention this because it is really a case study—is the whole question of information technology. Information technology consists of a lot of different industries, but the real point is this. The United States is the undisputed global leader in this area.

The Japanese are behind, but clearly are vigorously pursuing the information technology as a national strategy. We estimate that they will spend over \$1 trillion over the next decade to improve their information technology infrastructure.

A real export promotion strategy would recognize that this is happening. It would combine efforts in market access, efforts in deregulation, efforts in intellectual property rights, and it would constitute a partnership between the American Government and American industry to get in on the information technology revolution now and not be where we have always been, which is 5 years behind, and then knocking on the door because we were excluded, and so we are working very hard in that area.

There are other sectors which we also think are deserving of great emphasis, and I will just give you another example which responds to the underlying trends in Japan, and that example is medical technology.

We know that the Japanese population will be aging, aging faster than any other OECD country. We know that the United States has by far the most advanced medical technology in the world. We know that elderly people will be needing pacemakers and other sophisticated medical equipment.

Part of our export promotion strategy ought to be, and is, to go after this sector in all of its dimensions—market access, deregulation, constant discussions with the Japanese Government and also the Japanese private sector, and very close cooperation with our own industries, and this is precisely what we are doing.

So, we have a fairly large contingent of Foreign Commercial Service people in Japan. We have a team in Washington. We have been forging new links with the American Chamber of Commerce in Japan and with other American groups there, including, incidentally, the State Offices of Export Promotion, and our goal is over the next couple of months to totally refocus our export promotion strategy there, to focus on the sectors that we know are going to be major growth sectors.

Finally, let me turn to the broader Asian picture. As you said, this is the most dynamic region of the world, the fastest growing region of the world. We know that the challenge of getting our rightful market share there is really formidable, as I have a lot statistics in my statement showing the disparity between the effort that the Japanese are making in Asia and that we are making.

We figure that they are outinvesting us about 2 to 1. We look at their foreign aid performance in a country like Indonesia, where their annual foreign aid is about \$2 billion compared to our \$90 million, their \$2 billion going to infrastructure projects and projects which generate Japanese exports, our \$90 million going to more social welfare projects, which are highly desirable, but nevertheless not really relevant to what we are talking about today.

We have an enormous challenge in Asia, and it is only in the context of our national export strategy that we are going to make headway, and I would like to tell you some of the things we are doing.

First of all, we recognize that one of the major shortfalls in American performance in Asia, when it comes to exporting, has been financing, which is not up to par with what the Japanese and the Europeans are doing, and since the administration came into office, and thanks to people like yourselves, we have created a new export financing strategy which allows us to match aggressive financing on the part of other countries, and we have started to do that, and we have started to do that successfully.

Second, we have really mounted a very vigorous advocacy effort. We are honing a system which allows us to identify the major projects in Asia, gets the entire administration behind it, gets the President and the Cabinet to weigh in, puts together innovative financing, and I think this will stand us in good stead.

Third, we are focusing very headily on big, emerging markets where we believe the greatest incremental growth will come for American exports, and in Asia this is South Korea, the Chinese Economic Area, which includes Hong Kong and Taiwan, India and Indonesia, as I mentioned before, and for every one of these countries we are devising a very special country strategy. We are strengthening our Foreign Commercial Service, we are creating bilateral commercial forums between the United States and these governments, and in some cases we are setting up special commercial centers, which I would like to discuss later.

We also, in the national export strategy, have been mounting a focus on certain sectors. Now, this is not all we are doing, and this is not industrial policy by any means, but we need to focus, as you mentioned in your opening statement, and when it comes to Asia, we know that the big dollars are going to be in the infrastructure projects, and so we have been focusing on telecommunications, transportation, including aviation and air traffic control systems and automotive products, environmental protection, all kinds of environmental technology health technology, and financial services, and power generation.

So, we actually have a very clear focus both in terms of the country strategies and the sectoral strategies, although I want to hasten to add that those are not the only sectors that we are working with. For example, in China we have huge interests in the chemical industry. It does not fall into one of our sort of global sectors, but we are making a big effort in chemicals.

I think that the real issue here is not whether the administration is focusing on Asia, or recognizing that Asia is crucial to U.S. interests. That, in my view, is clearly recognized, and I do believe that

we have made a major effort to reorient our resources to the best of our ability in quite a short period of time here.

It is a little early to measure the results of the national export strategy, but we will be delivering a major report—actually, delivering two reports in the next 2 months, both to the Banking Committee, one on U.S. competitive position in the world, and second, on the national export strategy, and we will be able to detail exactly where we are.

But I think the real question here is one of proportion. Even if we reorient our resources—for example, take the U.S. Foreign and Commercial Service. We have begun to reallocate men and women from Europe to Asia, but the fact is that this is pretty much on the margin, maybe 10 people, maybe 15 people, but we are talking about an area of the world which is so big and so vibrant, and as you yourself said, where other countries are putting in such massive resources.

I mean, what comes to my mind, and I have traveled, like you, is I see Chancellor Kohl from Germany sweep through China, pick up 3 billion dollars' worth of projects, and then the Chinese—I think it was the prime minister—going to Germany and dropping another 2 billion dollars' worth of projects.

All of these are very heavily dependent on massive amounts of financing, which the German Government is providing. This is not straight export financing like we do. This is big financial packages that are given as a package and available to the Chinese to use any way they want, so long as they buy German goods.

Senator KERRY. Would you call it something?

Mr. GARTEN. I would call it—it is foreign aid by any other name. It is the kind of aid that we stopped giving in the sixties. This kind of practice is done by the French, and it is just that we are up against massive amounts of competition.

Second, when you look at what other governments are doing, it is not just that they have commercial officers, but they have the resources to put people in the ministries of foreign governments as technical advisors, people who then design the specifications and the standards which produce a demand for products of the country of the advisors themselves.

So, I think we are dealing here with a question of proportion. It is less whether we are reorienting, because I believe we are to the best of our ability, but rather, in light of the enormous stakes, and I would say also in light of the urgency of our getting into these markets now—because the people who get in now have the advantage for decades to come.

When the Germans won the contract for the Guanjo metro system, which they did with very far-reaching financing, when they won that they also got the inside track on every metro system in China, and the same goes with telecommunications, and the same goes with transportation systems. The companies that get the automobile contracts in China, or Indonesia, are going to be the ones that are going to be servicing those markets for a long time.

I see this as a matter of great urgency. We do not have the luxury to develop a strategy over the next 10 years. These are the formative times, and this is when I think—this is our moment. I think we are in good shape as a country, in the sense that, as our

upcoming report will show, in terms of competitiveness, our firms generally have turned the corner, the economy is healthy, the export consciousness of the Nation is up, and we realize, as a Government, how important exports are.

So, this is the time. This is the time to make some very far-reaching decisions about penetrating Asia. I think it will pay great dividends to the country, I think it will pay great dividends to our economy, and I also think it ought to be the centerpiece of our foreign policy as well.

Thank you.

[The prepared statement of Mr. Garten follows:]

#### PREPARED STATEMENT OF JEFFREY E. GARTEN

I am pleased to have this opportunity to appear before the Senate Commerce Committee to discuss our trade relations with Japan, and the Administration's strategy for addressing the wide array of challenges inherent in that relationship.

I have just returned from an intensive two week trip to Japan and China, focusing on the broad array of commercial interests of the United States, and I will be particularly pleased to give you some of my impressions in the question and answer period.

In this written statement, however, I would like to summarize where we are with regard to the "Framework" negotiations, what we are doing to promote U.S. exports over and above the Framework, and some of the ways we are looking at our commercial relationships with regard to Japan in the broader Asian context.

The Administration has rightfully put a tremendous amount of time and effort in working towards stronger economic ties with our number one Asian ally. Among President Clinton's first major foreign policy pronouncements was the definition of a Pacific Community to which we could aspire. He also made it clear how important access to Japan's market is and will continue to be for the U.S. In my view, balancing these two objectives--and achieving both--is one of the most important and difficult challenges facing our nation as we head towards the next century.

#### BACKGROUND

Japan has long been a key political and strategic ally of the United States, and one of America's primary partners in the world economy. In almost everything we do abroad, Japan's role is important. In this interconnected global economy, Japan's influence is felt in much of our domestic agenda as well.

Our relationship in the political and military security realm remains as strong as ever. However, although Japan is our largest overseas trading partner, and although our exports to Japan have been increasing (see chart 1), our trading relationship with Japan is uneven and unbalanced. Japan has had the advantage of essentially unfettered access to the U.S. market, while we have faced a variety of barriers in Japan. The barriers have prevented U.S. companies from adequately accessing the Japanese market.

Japan has an astonishingly high current account surplus—\$131 billion in 1993—that serves as a drag on world economic growth. That surplus has grown to its current level from just \$73 billion in 1991 (see chart B). Equally dramatic is the bilateral merchandise trade deficit, which has also mushroomed in recent years. In 1990 the deficit was just over \$41 billion. Last year, it reached \$59.3 billion. (See charts C, C-1 and D)

In addition, Japan is far less receptive to foreign direct investment than other advanced nations. Japan has only 0.7 percent of the world's stock of inward direct investment; the U.S. has 22 percent and the European Union has 38 percent. On a bilateral basis, the investment balance is terribly uneven as well. (See chart D-1)

Manufactured imports have also been a problem. They have averaged 3.1 percent of Japan's GDP between 1980 and 1992. The average for the other G-7 countries was approximately 13 percent. (see chart D-2) Today, that figure remains at 3.1 percent for Japan. The composition of U.S.-Japan trade is also lopsided, our imports from Japan are virtually all manufactured goods, whereas 40 percent of our exports are food and raw materials. (See chart D-3)

These figures reflect a variety of fundamental market access problems. Foreign firms face a number of difficulties in doing business in Japan. Exclusionary private sector business practices, non-transparent government-business relations, and excessive regulation all act as non-tariff barriers.

The impact on America is substantial. According to a number of privately conducted studies, if Japan were to eliminate all formal and informal barriers to trade, U.S. exports to Japan would increase somewhere in the range of \$8.9 billion to \$18.2 billion. In terms of the overall current account balance, this may not sound dramatic. But based on these estimates, and assuming \$1 billion in exports creates 20,000 jobs, then up to 364,000 U.S. jobs could be created if we are successful in opening Japan's market.

The U.S. economic relationship with Japan extends well beyond just bilateral trade issues. We work with Japan to strengthen the global financial system. We work closely with Japan in multilateral fora, such as the GATT, to improve the world trading system. We have a large number of cooperative programs in technological, environmental, and other global issues. And, as I noted earlier, our political and security ties to Japan remain extremely vital. But changing world economic and political realities dictate that we must expand the bounds of the bilateral relationship even further. One area of particular importance that we need to give special attention to is our relationship with Japan in Asia.

Asia now represents a major arena of economic competition and cooperation between the U.S. and Japan.

Since 1985, Japan's trade and investment in East Asia has risen steadily, outpacing the level of U.S. economic activity in the region (see chart E). In 1988, Japan accounted for nearly 19 percent of the imports of East Asian countries. By 1993, that share had risen to 21 percent. In value terms, Japan's exports to East Asia surged 76 percent from \$80 billion in 1988 to \$141 billion in 1993. That is nearly double the value of U.S. exports to the region.

Japan is also outinvesting the U.S. in Asia. Between 1987 and 1992, net Japanese investment in East Asia totaled roughly \$50 billion, compared with \$23 billion in investment by the U.S. (see chart F). Japan's aid flows have similarly outpaced those of the U.S. In 1992, Japan provided East Asia with \$4.3 billion in assistance compared with \$275 million provided by the U.S. (see chart G).

In view of the strengthening yen, it is highly likely that we will see a renewed outpouring of Japanese investment in the Asian region. Telecommunications, automobiles and auto components, and retailing facilities are some of the likely areas.

Clearly, both the U.S. and Japan have a major stake in trade with East Asia. But the nature of U.S. trade with East Asian nations is very different than the nature of Japan's trade with those same countries. In 1993, Japan ran a trade surplus with Hong Kong, Singapore, Taiwan, South Korea, Thailand, the Philippines, and Malaysia. It ran deficits with Vietnam, New Zealand, China, Australia, and Indonesia. The U.S., on the other hand, ran a surplus only with Vietnam and Australia (see charts H and I).

Japan represents a challenge for us in Asia for several reasons. We are fiercely competing with Japan for market share in Asia, which is the most dynamic economic region in the world. Japanese investment in Asia is resulting in exports from Japanese-owned factories in Asia to the U.S. Yet Japan is not taking its share of imports from Asia. The U.S. is bearing a disproportionate share. Asia must be more than just an offshore export platform for Japan. It must also become a larger source of imports for Japan.

The challenges we face in Japan and Asia more broadly are formidable. We are approaching them on several fronts. The prime focus is the bilateral U.S.-Japan Framework for a New Economic Partnership. But we are also moving toward an aggressive export promotion strategy in Japan. We are developing a program to work with Japan as it deregulates key sectors of its economy. We are working to increase foreign participation in Japan's extensive Official Development Assistance (ODA) program. And we are focusing on ways to help U.S. firms compete more effectively against Japan in Asia.

Let me discuss what we are doing in each of these areas.

#### U.S.-JAPAN FRAMEWORK FOR A NEW ECONOMIC PARTNERSHIP

The Framework has been the centerpiece of our effort to put our trading relationship with Japan on a new footing. It provides the best opportunity for real change to occur in Japan which will result in business opportunities for foreign firms. The Framework approach is designed to address both sector specific problems and structural problems, as well as broad macroeconomic issues. This allows us to address the sectoral barriers which confront U.S. firms while at the same time removing the underlying obstacles which affect all foreign companies trying to do business in Japan.

In the past, we have reached many agreements with Japan which did not improve access nor increase business opportunities for U.S. firms in a meaningful manner.

This is why we have been insisting on achieving results which can be accurately verified and measured. America's interests are not advanced if an arcane process is improved, but U.S. companies are in no better position to win contracts.

The Framework is comprised of five baskets: Government Procurement, Regulatory Reform and Competitiveness, Other major Sectors (Automotive), Economic Harmonization, and Implementation of Existing Arrangements and Measures.

Here is a quick overview of some of the issues. As you know, the Framework is handled by a closely coordinated Administration team. I will focus on those in which Commerce is particularly active, recognizing that in every case we are working with the United States Trade Representative, the Departments of State and Treasury, the White House staff, and several other agencies.

#### *Automotive*

In the U.S.-Japan Framework negotiations on motor vehicle and auto parts trade, the U.S. is seeking increased market access in Japan for foreign motor vehicles and auto parts and greater access for U.S. auto parts suppliers to the Japanese transplant vehicle manufacturers in the U.S. Chart J, K, and L demonstrate the imbalances in this sector, including the fact that automotive trade accounts for over half the bilateral trade deficit. Specifically, we are seeking to increase the opportunities for foreign firms to sell their vehicles directly through existing or new Japanese dealerships, improve the opportunities for selling parts to Japanese transplant manufacturers and to manufacturers in Japan, deregulate the auto parts aftermarket, resolve standards and certification issues, and improve the overall data on parts purchases which will be verified and monitored. We have worked closely with the U.S. automotive industry in developing our strategy. To date we have made little progress.

#### *Medical Technology*

The medical technology industry is a high-wage, knowledge-intensive industry sector—precisely the kind that contributes to quality job growth in the United States. This is one industry sector in which we have a trade surplus with Japan.

However, in every developed country, with the exception of Japan, U.S. firms have at least a 40 percent market share, compared to 21 percent in Japan. Chart M compares the U.S. share of Japan's medical technologies market with the U.S. share of the medical technologies market in other developed countries. Clearly, something other than the invisible hand of the market is at work in Japan.

Although we have not yet reached an agreement, we have made some progress. For example, Japan has agreed to publish in advance procurement information for public hospitals, and to provide a directory of procurement officials for each hospital. This kind of procurement information would go a long way toward creating a level playing field for foreign firms.

However, we remain far apart on the use of best overall value<sup>1</sup> for awarding procurements, and our request for a high-level Government of Japan directive encouraging procuring entities to seek out competitive foreign suppliers.

Ultimately, we are simply asking Japan to affirm in the medical technologies agreement the purpose of the Framework: "to increase access and sales of competitive foreign goods and services."

#### *Intellectual Property Rights*

One of the perennial complaints we hear from U.S. firms trying to gain access to the Japanese market concerns intellectual property protection. Problems in this area affect a wide range of companies that attempt to do business in Japan, from corporate giants with extensive international experience to smaller, high-tech firms that are often undercapitalized and do not have the money to pursue costly litigation to settle IPR disputes. Under the Framework sub-basket on intellectual property rights, led by Commerce's Patent and Trademark Office, we are optimistic that we will solve the more difficult issues relating to IPR in Japan. Specifically, we are negotiating with Japan to drop pre-grant opposition and speed examination of patents. This will remove two of the greatest obstacles to U.S. firms attempting to protect their proprietary technology in Japan.

Despite our progress thus far in the negotiations, a number of outstanding issues remain to be resolved. For example, we are continuing to press Japan to provide a broad grace period of one year, during which an inventor can file a patent after having discussed the invention in a technical journal or through actual use. We

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<sup>1</sup>Best overall value: The U.S. Government is pressing for the use of best overall value because it would require entities to base their procurement decisions on total life cycle costs and the quality of the technology rather than on lowest price.

would also like to see Japan increase its staff at the Japanese Patent Office (JPO) so that applications may be dealt with in a more timely manner. We are also taking issue with the insistence of Japanese judges on interpreting patent claims literally, thereby severely limiting the scope of a patent. In addition, with regard to trade secrets, we are pressing Japan to develop a mechanism whereby trade secrets can be kept confidential in the event that a charge of misappropriation is leveled. Current Japanese law requires the trade to be disclosed publicly, leaving trade secret owners with the "catch-22" of losing their trade secret if they choose to enforce it.

#### **Technology Access**

We believe that increasing our access to leading-edge scientific and technical research and information in Japan is critical. We are seeking to create an environment in which U.S. firms can create and carry out strategic programs integrating R&D collaboration, researcher access, and scientific and technical information. In fact, we have made some concrete progress in these areas. Under Secretary Mary Good, who heads Commerce's efforts in the Access to Technology sub-basket of the Framework, recently signed an agreement with MITI for a comprehensive set of joint activities on civil industrial technologies. Ultimately, this will open more Japanese projects to international participation, and increase opportunities for U.S. firms to collaborate in the early stages of project development. MITI has also agreed to set up a \$30 million facility for foreign researchers, in order to assist these researchers with accommodations and introductions. MITI is also establishing an Industrial Technology Information Service, which will provide us with additional scientific and other technical materials for distribution to U.S. industry. MITI national labs databases will also be made available over the Internet.

However, despite these successes, several issues remain to be resolved. An important part of our work in this area has focused on gaining access for U.S. firms to private sector R&D, which is where most of this activity takes place in Japan. Therefore, we are continuing our dialogue with MITI to develop additional means through which we can enhance U.S. access to these private sector programs. Further talks on this issue will be held in Washington on August 10.

#### **NATIONAL EXPORT STRATEGY**

The general foundation of the administration's export promotion policy is the National Export Strategy. It is built on the premise that exports are a primary component of U.S. economic growth, that the U.S. government has a key role to play in promoting exports and that it can do a better job of this than it has in the past.

Secretary Brown coordinates this effort through the Trade Promotion Coordinating Committee (TPCC). After a six month, intensive collaboration effort among the 19 federal agencies in the TPCC, plus the National Security Council and the National Economic Council, the first report of this group was issued. Titled "Toward a National Export Strategy," it contained over 60 recommendations for improving our national export promotion efforts. Congress was consulted closely and made important contributions. This is the foundation of our promotional efforts in all important markets, Japan included. The key underlying principles are better interagency coordination, focus on key markets and sectors, a sophisticated country/region approach, better trade finance, and a more aggressive strategy to press the interests of U.S. firms trying to win contracts abroad.

#### **Export Promotion in Japan**

We are strongly committed to further increasing exports to Japan even as we continue our negotiations under the Framework to open key sectors of the Japanese market which remain relatively closed to our firms. The fact is that the importance of the Japanese market is so great that we cannot rely only on market access negotiations. Moreover, even when such negotiations result in agreements, we must be ready to aggressively take advantage of the openings achieved.

The Department of Commerce is spending a great deal of time consulting with U.S. associations and firms doing business there, with U.S. commercial and other Embassy officers, and with the Japanese private sector to explore how our commercial programs in Japan can be made more effective—a critical step in increasing our exports. We will have more to say about our plan in the second annual report on our National Export Strategy, due to be presented to Congress at the end of September.

Our presence in Japan and range of promotional programs in that market is already extensive. Our work in Japan is carried out by our Foreign Commercial Service team in cooperation with colleagues from the Departments of State, Treasury, and other U.S. Government agencies. Our Foreign Commercial Service staff, at 63 members, is our largest single such contingent in the world. We have added Nagoya

to our officer locales and are depending heavily on our State Department colleagues in the increasingly busy posts of Kyushu and Hokkaido. The Foreign Commercial Service has an excellent working relationship with key private sector organizations such as the American Chamber of Commerce in Japan, and the Association of State Organizations and key trade associations. The goal is to use these excellent resources in the most efficient manner possible.

Our promotional programs include the Japan Corporate Program with its membership of nineteen companies. (See annex 3) Commerce and these firms have committed to a strong five-year program to help these firms enter the Japanese market. We have seen many successes in their efforts to date. Our Japan Export Promotion Program is tailored to this complex market and includes a wide variety of promotional tools and expert commercial counseling through the Japan Export Information Center. Perhaps most unusual, we have a formal trade promotion cooperation program with Japan—the only country with a formal government program to promote imports.

This is an excellent time for us to strengthen our export promotion efforts in Japan. Japan's economy and domestic market are changing in important ways. The recession and the much stronger yen are breaking traditional distribution and purchasing patterns as Japanese business and consumers are seeking better value. The heady days of the late 1980's are gone when consumers and business bought without concern for cost and when the enormous price differentials between Japan and overseas markets caused by trade barriers, overregulation and restrictive business practices were acceptable. Market forces are reinforcing trade negotiations to create new opportunities.

I do not believe these changes will be reversed. And with their new quality and price competitiveness, U.S. firms are well placed to benefit.

There are problems, of course, as well as opportunities. The high yen, while making U.S. products cheaper in yen terms, also increases the cost of investing and doing business in Japan for foreign firms. This is a real deterrent to many of our medium and smaller size firms considering entering the Japanese market. The Japanese Government has begun to implement programs to address this problem such as JETRO business support centers and import centers, tax incentives to importers and foreign access zones. These are innovative, helpful programs but really only effective at the margin given their limited scale at present.

#### *Information Technologies—A Prototype for a More Aggressive Promotional Effort*

One of our goals is to lay the groundwork for a new promotional concept—sector focused programs concentrating on those sectors where the U.S. has indisputable competitive advantages, and where we know that underlying trends in Japan will be moving in the direction of more demand for foreign products and services. Information Technologies is a good prototype, and we will be giving special effort to it. Let me explain how we are going about it as a case study which can and will be applied to other sectors.

We include in Information Technologies semiconductors, semiconductor manufacturing equipment, computers and software, telecommunications equipment and services and information services. This is a sector in which the U.S. is a world leader and setting the pace for the development and implementation of these technologies into the next century. It is also a sector in which export promotion will require pulling together a broad range of efforts. This includes government procurement, intellectual property rights, and deregulation. Also entailed is competing with Japan for telecommunications contracts throughout Asia, where Tokyo will have massive amounts of foreign aid at its disposal (see below). Finally, a far reaching export promotion strategy will involve consideration of reciprocity--specifically, how to balance the unfettered access that Japanese companies have to our market for information technology with the lack of similar access which our companies have in Japan's highly regulated market. In short, we need an aggressive strategy which attempts to preempt the same kinds of problems we have had in the past with other strategic sectors.

#### *Japanese Planning for the Information Age*

Japan has been concerned about the "informatization" of its society for several years. Fundamental to the concept have been the Government of Japan's concerns with the aging of the Japanese population, the need to move industry to higher value added economic endeavors, and the need to be at the competitive forefront globally in these 21st century industries.

Most recently both the Ministry of Posts and Telecommunications (MPT) and the Ministry of International Trade and Industry (MITI) have issued vision papers

which have emphasized the creation of a Japanese Information Infrastructure, based on a nation-wide fiber optic network.

Japan sees this network as the backbone for the emergence of a multimedia industry. The network would carry information of all types in digital form, whether voice, data, images or text. This capability would stimulate the growth of companies, employment and a myriad of products. For example, they estimate that over 2 million jobs will be created in building the network.

Forecasts for the year 2010 place the Japanese multimedia market at \$1.2 trillion (123 trillion yen), with \$560 billion (56 trillion yen) from new markets related to the fiber-optic network, and \$670 billion (67 trillion yen) from existing multimedia markets.

Multimedia experiments are already planned. For example, the Tokyo Metropolitan Government and MPT plan to launch full-scale, experimental multimedia projects in 1996 with about 100 companies from a broad range of industries. These include electronic equipment, CATV, telecom common carriers, computer software, trading firms and banks. So far, NEC, Fujitsu, IBM Japan, Sony, Pioneer Electronic, NTT have expressed an interest.

But the Japanese see themselves lagging behind the U.S. in the technologies which can make multimedia a reality. In general, even current Information Technologies are less widely deployed in Japan than in the United States. Fewer than 10 percent of houses in Japan are wired for cable television, for example, versus nearly 65 percent in the U.S. In Japan, only 12 percent of the personal computers are connected to a network versus 56 percent in the U.S.

#### *Information Technologies Strategies*

The U.S. information technologies sector is in a position of strength to serve the Japanese marketplace, which promises to be large and dynamic. But we need to understand this marketplace in detail in order to help U.S. Information Technologies suppliers avoid the type of trade barriers we have often seen erected in the past in Japan in emerging markets. We have to be smart, and we have to be quick.

In order to accomplish this, we have embarked on an extensive examination of the Japanese Information Technologies market which we see as the foundation for our cooperative efforts with U.S. industry to address this lucrative business. We will be working with American business to develop specific strategies, which we hope to begin this Fall.

But, while we conduct a thorough examination of the future trends in that market, we are already addressing current market opportunities through a variety of efforts.

#### *Semiconductors*

The Japanese semiconductor market, at more than \$20 billion, is the second largest in the world. In order to be competitive, U.S. companies need full market access in Japan. However, a series of formal barriers, such as investment restrictions, and non-tariff barriers, such as the keiretsu purchasing bias (where members of the same keiretsu, or business group, buy products only from other members of that group), kept U.S. share of the Japanese market at very low levels.

The 1986 U.S.-Japan Semiconductor Arrangement was partially successful in opening the Japanese market to foreign suppliers and deterred dumping of Japanese semiconductors in the United States. The current 1991 Arrangement is intended to build on the progress in market access and maintain an effective deterrent to semiconductor dumping.

We are planning two semiconductor missions to Tokyo to underline our commitment to the U.S.-Japan Semiconductor Arrangement. The missions will help insure that U.S. companies continue to gain improved access to the vital Japanese market in areas such as multimedia, telecommunications and consumer electronics.

The first will take place in late February, 1995 and will focus on introducing U.S. semiconductors targeting the wide-ranging multimedia applications markets, such as speech synthesis and data compression, into the Japanese market.

The second mission will take place in July 1995 and will cover a wide range of end-use markets. Both events will build on a highly successful 15 company July 1994 semiconductor mission to Tokyo which I addressed during my recent trip to Asia.

A post initiated multimedia semiconductor trade mission is tentatively scheduled for February 28 - March 1. The event would focus on introducing U.S. companies' devices to Japan, such as speech synthesis chips, digital signal processors for data compression and decompression, and networking asynchronous transfer mode (ATM) chips, which are targeting new multimedia applications.

### *Commuters and Software*

Japan had computer systems sales of an estimated \$33 billion in 1993, the second largest market in the world. Projections place Japanese computer systems sales increasing at an average annual rate of almost 4 percent through 1997.

Despite their dominant position in the U.S. and most major overseas markets, U.S. suppliers have generally had little success selling to Japanese government agencies. The implementation of an advanced Japanese Information Infrastructure (JII) should provide increased opportunities in many segments of the packaged software market. U.S. vendors already supply about 60 percent of the \$7 billion Japanese packaged software market.

For the fifth consecutive year, we are planning to take a limited number of new-to-market packaged software suppliers to Tokyo in our Software Systems USA event. The companies are given an intense exposure to the Japanese market, including briefings, attendance at the largest computer show, Data Show, and pre-arranged business appointments.

We currently have a computer procurement agreement with Japan, which covers sales of computer systems, software and service to the Japanese Government. We have not been satisfied with the results for U.S. computer suppliers. U.S. market share in the Government market remains well below that achieved by U.S. computer suppliers in the Japanese private sector market.

In mid-1995, we plan to take the CEOs of major computer systems firms to Japan in support of the agreement. We intend to show the commitment of both the U. S. Government and industry to that market and underscore our desire to see that agreement fully implemented.

### *Telecommunications*

We are employing a multi-faceted approach to promoting U.S. telecommunications exports to Japan, which combines direct and indirect aspects. Let me first address the direct approach, which covers the most traditional type of trade promotion—trade missions. For the past several years, we have not emphasized the use of "standard" trade missions to Japan, based on the determination several years ago that they were not effective in the Japanese telecommunications market.

We have initiated an alternative approach, largely based on the use of our Foreign Buyer Program, to bring prospective Japanese customers to major U.S. telecom trade shows, especially the SuperComm show held each Spring. We hope to encourage more Japanese visitors to attend U.S. trade shows, as well as special demonstrations and seminars on multimedia/information technologies.

More recently, we began a series of meetings of company executives at informal settings outside metropolitan areas. The first such meeting was held in April of this year. The events are designed to unlock \$48 billion annually of commercial opportunities with the regional power companies and their new common carrier subsidiaries.

The ambiance at such settings has long proven effective in Japan for cementing business deals and building close corporate ties. We anticipate that this type of event will help U.S. companies get beyond a formal and superficial level of contact to achieve the level of interaction which typifies longstanding customer supplier relationships in Japan.

Lastly, we recruit U. S. companies to participate in a number of specialized telecom trade shows in Japan, and assist the show organizer with the annual Communications Tokyo exhibition.

Our indirect approach involves two components—the collection and dissemination of market intelligence and support for trade policy. We will continue to develop marketing information about highly focused segments of the telecommunications market in Japan for dissemination to individual companies identified as most likely to be interested in and capable of pursuing the Japanese market.

In addition, we have been and will continue to be involved in supporting U.S. trade policy vis-a-vis telecommunications in Japan. In particular, Section 1377 of the 1988 Trade Act requires the Administration to annually review telecom trade agreements with Japan and take action, if necessary, to resolve remaining market access problems. This tool has been used effectively over the past five years to remove trade barriers in Japan and pave the way for the sale of U.S. products in Japan. It is essential for the U.S. to continue to use these annual reviews to assure effective implementation of existing and future telecom agreements.

Telecommunications is also being discussed in the Framework context under the Government Procurement basket, as a result of industry concerns that this market was essentially closed to U.S. suppliers of competitive products and services.

Since last Fall, we have held discussions aiming at tapping this market through the establishment of new procurement procedures. We are still trying to reach agreement in this area.

Through these indirect efforts, we believe we are creating a favorable environment for the flow of U.S. telecom products and services to Japan. Japan, with the second largest telecom market in the world, is already the third largest recipient of U.S. telecom exports, reaching \$822 million in 1993. In addition, a number of U.S. firms are providing telecom services in Japan. We hope that these initiatives will enable the U.S. telecom industry to take further advantage of the tremendous growth expected to occur in Japan's telecom market over the next decade. At present, the U.S. share of Japan's telecommunications market does not reflect the global competitiveness of the U.S. telecommunications industry (see chart N).

#### *Other Sectors*

Information technology is not the only cluster of industries on which we plan to focus, of course. There are several other major trends in Japan which we need to focus on with far reaching export promotion strategies. Let me give some examples.

One such area is health technology. We know that the Japanese population is growing older faster than any of the other OECD nations. There should be enormous demand for American medical technology—by far the best in the world. We must push hard on this point.

We know that the increasingly affluent Japanese population will be looking for more ways to spend leisure time. Our recreation and entertainment industries should do extremely well, but the government ought to be ready with a strategy for assistance when required.

As I mentioned before, we know the distribution system is changing dramatically, opening up major opportunities for U.S. discount stores, mail catalog businesses, etc.—and we should have a reinforcing strategy for that, too.

#### *Deregulation*

Our efforts to put our trading relationship with Japan on a new footing include a major push to support deregulating the Japanese economy. This issue is of exceeding importance to the United States. We are convinced that a variety of micro-economic issues, if effectively addressed, would have a tremendous impact on the capacity of American firms to enter the Japanese market.

Deregulation is critical to efforts to revive Japan's economy, reduce its current account surplus, and ultimately lead to a more rational economic structure. All corners of Japanese society—from the consumer to the shop owner to the leading corporations—are entangled in a web of excess regulations in Japan at every turn. Over ten thousand regulations are in place, many of which serve no useful purpose. The American Chamber of Commerce in Japan has highlighted its concern about the effect of overregulation on the ability of foreign firms to succeed in the Japanese market. Its 1993 United States-Japan Trade White Paper states that "many archaic and arbitrary regulations and guidelines remain in effect, serving as impediments to trade." Deregulation would bring about major benefits for consumers, stimulate domestic demand, facilitate innovation, and enhance foreign access to Japan's market.

Some of Japan's excessive regulations are discriminant against imports, while others affect Japanese and foreign firms equally. Either way, it is clear that as long as Japan continues to follow a pattern of gross overregulation, foreign firms will face unreasonable impediments to selling their products in the Japanese market.

Over the last 10 years, Japan has produced two well-known reports, the Maekawa report in the late 1980s and the Hiraiwa Commission report in December 1993, both of which were supposed to represent a major watershed in Japan's approach to regulation. While the United States had high expectations for both reports, they were written in vague terms that committed Japan to little effective follow-up.

To the extent that Japan has concentrated on eliminating regulations, its efforts have been limited. Last month, Japan announced a deregulation package which included 279 measures that various ministries compiled in an effort to demonstrate the importance Japan attaches to deregulation. We were pleased that Prime Minister Murayama announced that his government would follow through on this program. While we welcome this ongoing effort by the Japanese Government and view the package as a step in the right direction, the package says little about the how the 279 measures and future proposals will be implemented. It also discusses implementation dates in vague terms. On future deregulation efforts, the package—merely notes that by the end of March 1995, Japan will establish a five-year deregulation action plan.

We believe that if Japan is truly serious about deregulation, it must establish a continuous, long-term process for reviewing regulations and eliminating those that are not absolutely necessary. And in pursuing such an approach, it should provide a mechanism for regular input into the process by foreign firms. These and other broad deregulatory issues are being pursued within the context of the U.S.-Japan Framework.

But in addition to dealing with these broad issues, we will be working closely with specific U.S. industry sectors in identifying and compiling lists of specific regulations that restrict their activities in Japan. This will entail drawing on the resources of U.S. company representatives in Japan who are well versed in the problems of Japan's regulatory regimes. We will also work with industry groups in the United States. We will submit the regulations we identify to the Japanese Government and ask that they be considered for elimination or streamlining.

Only through these types of sustained efforts can we hope to influence Japan to create a rational, reasonable regulatory environment. Annex 1 provides examples of current regulations that stifle business in Japan. Annex 2 provides an assessment of Japan's efforts starting from the June 1986 Maekawa Report to the present.

#### *Official Development Assistance*

A further major element of our Japan trade promotion efforts concerns Japan's official development assistance (ODA) program. Japan's ODA, or foreign aid system, is an increasingly important avenue through which U.S. firms can export to a host of emerging and developing markets. Over the next five years, Japan will be stepping up the pace of its ODA lending by 40-50 percent. This substantial budget increase will bring Japan's aggregate ODA disbursements to roughly \$15 billion a year. Liberally speaking, up to \$9-\$10 billion of the total \$15 billion could be potentially available to U.S. firms.

In light of the opportunities this program presents for U.S. firms, the Department of Commerce is developing a program for providing information on ongoing ODA projects, for counselling business executives on the intricacies of the ODA system and on how to team-up with a Japanese partner, and for keeping up with ODA trends and for monitoring how the program varies to some degree from country-to-country.

Most of Japan's ODA funds are extended throughout Asia. (See chart O) The funds have been instrumental in ensuring that Asian economies become acquainted with the host of goods and services available globally. If U.S. firms do not proactively pursue this exporting venue, they diminish their potential of gaining greater global recognition of their products.

There are several reasons U.S. firms hold considerable potential to supply goods and services for Japanese ODA projects. First, the program plays to the strengths of U.S. industry. The lion's share of Japan's ODA funds is allocated for large telecommunications, power, and transportation infrastructure projects. Japan has also begun to place heavy emphasis on the environmental soundness of ODA projects. These are industry sectors for which U.S. firms are well-suited to offer price and quality competitive products.

Second, Japan is expanding its program to new regions of the world—areas where U.S. firms have considerable experience exporting. For instance, Japan is extending loans for environmental projects in Eastern Europe, for railroad and airport projects in Sub-Saharan Africa and for telecommunications projects in Latin America.

Finally, Japanese firms appear to be seeking to partner up with U.S. and other foreign firms to pursue Japan ODA project work, often because Japanese firms lack the expertise to effectively compete for these contracts. The Japanese Government has publicly supported greater U.S. participation in the ODA arena.

Many U. S. companies are focused on the importance of this program to increase their exports, and they recognize that Japan's ODA is often the only alternative form of financing. We have stepped up our efforts with the Japanese Government on behalf of numerous U.S. firms to ensure that they are fairly considered for ODA contracts. In meetings with key Japanese ODA decision makers, we have conveyed the importance the U.S. Government attaches to augmenting U.S. company participation in this program.

We are raising the visibility of the program in other ways as well. For instance, we are more actively publicizing this program in the United States. It is important not to underestimate the value of simply getting the word out about the benefits of securing Japan ODA contracts. In discussions with U.S. firms, we have found that a high number of American executives do not pursue these opportunities when attempting to expand their overseas business operations simply because they are unaware of their existence.

One problem that U.S. firms are confronted with when attempting to access these funds is the complexity and opaque nature of Japan's ODA lending. These two features have served to discourage greater U.S. participation in this program. These problems are especially pronounced in the early project identification process. Announcements concerning Japan ODA project proposals often fall so late in the project cycle that it is too late for U.S. firms to put together effective proposals.

Therefore, we are redoubling our efforts to convince Japan to be more forthcoming with project information during the early conceptual stages. We also are exploring ways to work more intensively within ODA-recipient countries to identify viable ODA projects and to acquaint host-country officials with U.S. products and services that can greatly accelerate their pace of development.

Through the combination of these efforts, we hope that the participation of U.S. companies in this arena will significantly increase.

#### THE U.S.-JAPAN, AND THE ASIAN MARKET

The Asia-Pacific region includes the world's fastest growing economies, several of the world's most populous countries, and some of the most lucrative markets for American exports and job creation. This region, which spans from Northeast Asia (China, Taiwan, and Korea), Southeast Asia (ASEAN and Indochina), Australasia (Australia, New Zealand, and the Pacific Islands), and South Asia (India, Pakistan, and surrounding economies), has a combined GNP approaching \$2 trillion (excluding Japan), with fast rising incomes.

In 1993, even without Japan, Asia absorbed more than one-fifth of all U.S. exports, supporting close to two million American jobs. In addition to its importance as a market for U.S. exports, Asia is becoming more important to the United States as a source of capital. More than forty percent of global bank reserves are now in the seven leading Asian economies compared with seventeen percent in 1980.

In 1993, U.S. merchandise trade with this region (excluding Japan) exceeded \$225 billion, comprising approximately-one quarter of the United States' trade with the world. While exports to the region reached more than \$90 billion, imports from Asia and the Pacific exceeded \$135 billion, resulting in a deficit of approximately \$45 billion.

The interaction of U.S. and Japanese companies in the vast and rapidly growing Asian market will be critical to U.S. competitiveness in the future. Commerce will be the driving force of regional integration. Our firms must be key competitors in these markets, and we in government must do everything possible to help maximize their potential both through enhancing their competitiveness and through helping promote their sales.

In their sales efforts in Asia our firms will encounter a massive, well-established, and still growing Japanese commercial presence. Since the Plaza Accord of 1985 initiated the rise in the yen's value, Japanese firms have been increasing both their overseas parts purchases and their manufacturing production offshore. Much of this has been in Asia. And with the more recent wave of yen appreciation the composition of this investment is changing. No longer are these simply assembly operations to reexport labor intensive goods back to Japan. They are increasingly sophisticated production plants and their components suppliers to serve the entire Asian—and sometimes third country—markets. Much of the competition our firms face in Japan and in the Big Emerging Markets in the future will be from these transplants.

As I mentioned earlier, most of Japan's massive Official Development Assistance and recycling funds go to Asia—much to fund new infrastructure projects. For Japan, ODA is a strategic asset of the highest order, allowing it to provide the kind of financing that gives Japanese firms a competitive edge even if they are not the most competitive in terms of the goods, services and technology they supply. More recently, there has been increasing interest in Japanese government and business circles toward helping these nations raise the technical skills of their work forces to better produce high quality parts and components. Much of this production will be by Japanese subsidiaries and for export to Japan. Japan's exports and trade surpluses with the region have increased rapidly. Japanese commercial presence in Asia is growing.

In many sectors there will be head-to-head competition between U.S. and Japanese firms. In others, cooperative ventures between U.S. and Japanese firms may be in their commercial best interest. The private sector must determine the best approach, but our government is now establishing a mechanism to make firms aware of commercial opportunities such as those under Japan's ODA program. We will also use our promotion officers and networks to make potential partners in Japan and the U.S. aware of the other's interest. U.S. firms are sophisticated, yet now, rel-

atively low cost suppliers. This is an increasingly important consideration for Japanese prime contractors, retailers and others looking to offset high domestic costs.

Increasing U.S. exports to Japan, and factoring in the Japanese commercial presence in Asia when designing promotional and commercial programs for the Asian Big Emerging Markets and other nations, will require close government/private sector partnership. While our broad Asian strategy is beyond the scope of this statement, let me assure you that we are working towards & broad approach in several areas:

- expanded and more aggressive export financing;
- more aggressive advocacy on behalf of U.S. firms;
- major country strategies for the Big Emerging Markets in Asia (South Korea, the Chinese Economic Area, Indonesia, and India), and
- a focus on trade opportunities in ASEAN and APEC.

In the year that I have been in the Commerce Department, I have had the chance to make two substantial visits to Asia. In my view, it is hard to exaggerate the formidable challenge we face in winning markets. The challenge is on many levels. There is competition with Japan and other OECD countries with massive tied aid packages. There is competition from Asian exporters like Korea, Taiwan, and Singapore—many with close cultural and business ties to the region. Exporting to the region will require the development of close commercial ties which comes with stepped up technical and managerial training efforts from the U.S., too. The point is: we have made a good start, but there is a long way to go before our efforts, resources, and attention are truly proportionate to the stakes.

I would be happy to elaborate on all these issues.

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#### ANNEX 1—DEREGULATION EXAMPLES

##### *Building Codes*

In light of restrictive Japanese building codes, competitive U.S. suppliers of wood building materials are often prevented from selling their products in Japan. Many Japanese regulations governing building codes are not performance-based and often stipulate that only non-wood products can be used for specific jobs. This is the case despite the fact that building materials made of wood are often equally or better suited for various applications and types of construction. One reason wood products are often better for specific jobs is they have substantial energy-absorbing properties which is particularly important in areas prone to earthquakes, such as Japan.

##### *Approval of insurance products*

The Government of Japan generally prohibits insurance policies covering similar risks from varying in price or coverage. For example, each category of risk, like auto and home insurance, must be similar in terms of coverage and also cannot vary in price. Hence, large Japanese companies with wide distribution systems and captive insurance agents have a great advantage over foreign sellers of insurance premiums. That Japan's insurance regulatory regime is so restrictive means that foreign firms can not compete by differentiating in price and products—areas where they are particularly competitive.

##### *Financial Services*

In Japan, American investment advisor companies are denied, outright, access to manage public pension funds in Japan. Yet Japanese pension fund managers have access to and manage U.S. Government pension assets. This situation helps explain why foreign firms manage a fractional amount of Japan's overall public and private \$1 trillion pension fund market, while the Japanese share of the U.S. pension fund is 8 percent.

##### *Distribution System*

My final example deals with Japan's archaic, multi-layered distribution system which is replete with its own set of excessive regulations. According to a December 1993 article in the "Tokyo Business" magazine, the giant Japanese supermarket chain Daiei, which imports significant amounts of foreign products, has discovered that to establish one new store it must receive a minimum of 40 licenses under 19 different laws governing its operations. Daiei calculates that the aggregate cost of pursuing all the necessary approvals to open a new store costs roughly \$1.6 million. That Daiei must go through so many hoops to legally open a new store interferes with U.S. firms' potential to expand their sales through larger retailing chains, which studies have shown are generally more receptive to foreign goods than smaller local shops.

In addition, the Large-Scale Retail Store Law continues to needlessly complicate the approval process for and operation of large-scale retailers in Japan, including U.S. retailers, such as Toys "R" Us.

**ANNEX 2—DEREGULATION—An Assessment of Japan's Efforts Starting From the June 1986 Maekawa Report to the Present**

Underlying principles .....	USG proposals (January 1990); Maekawa report (June 1986)	Reform should be based on external factors to ensure international harmony. Further improvement in market access should be carried out through deregulation.	To meet international standards, deregulation should be undertaken in all areas, except principal areas	The deregulation process should be institutionalized.	Extensive deregulation is necessary to facilitate Japan's transition from an export-led to domestic demand-led economy and to foster economic growth.	Eliminate regulations that adversely affect foreign firms so as to enhance competition and benefit consumers.	Japan should issue an action program by July 1994 for eliminating all regulations—both economic and social—that are not absolutely necessary, and ensure that regulations are transparent and as non-burdensome as possible	Reform should be based on internal factors that are aimed at expanding business opportunities and consumer choices and narrowing price differentials between Japan and other countries, thereby increasing real purchasing power.	Economic regulations should be eliminated in all areas, except in exceptional areas, and social regulations should be revised constantly and kept transparent and simple	Promote deregulation by setting priorities. That is, emphasize expanding domestic demand, promoting imports, improving the quality of life, creating new industries, expanding consumer choice, and narrowing price differentials between Japan and the rest of the world.	The four priority sectors are: 1) housing; 2) information/communications; 3) import promotion/market access/distribution; and 4) financial services/securities/insurance.	Economic regulations should be eliminated in all areas, except in exceptional areas, and social regulations shall be kept to the minimum necessary.

**ANNEX 2—DEREGULATION—An Assessment of Japan's Efforts Starting From the June 1986 Maekawa Report to the Present—Continued**

	USC proposals (January 1994) <sup>1</sup>	Maekawa report (June 1986)	Maekawa report (December 1993)	GOJ action plans (March/June 1994)
<b>Specifics and timetables</b> .....	Each Japanese agency should complete an overall review of its existing regulations to determine their necessity and announce the results of this review by the end of 1994. Japan should announce a series of concrete measures to be undertaken over the course of the next five years that aim at eliminating unnecessary regulations. Strict timetables for eliminating and simplifying regulations should be included.	.....	.....	Ministries concerned shall review regulations under their jurisdiction in principle by the end of JFY 1994 (March 31, 1995). The June Action Plan includes 279 measures within the four GOJ-designated priority sectors. The Cabinet mobilized all available resource to compile these measures. For the most part, these proposals will be implemented in the medium term, with some implementation in years after JFY 1996 (April 1, 1997). By the end of JFY 1994, the GOJ will formulate a five-year deregulation action program.
<b>Institutionalize the process</b> .....	The deregulation process should be ongoing. Regulations should continue to be revised to ensure that they are transparent, simple, and actually necessary.	.....	.....	The mechanism will be strengthened for following up on previous proposals and on those set forth in the June 1994 Action Plan. This will include active utilization of administrative inspection. Results of the follow-up will be compiled and published by the end of this year. Regulations restricting market entry, prices, and approval of licenses will be reviewed or clarified.
<b>Local regulations</b> .....	Japan should create a mechanism that will ensure that local regulations, both existing and future regulations, do not undermine the benefits of deregulation at the national level.	.....	.....	.....

Third party organ .....	<p>Japan should establish an independent, impartial entity by December 1994 which would:</p> <ul style="list-style-type: none"> <li>• Have the authority to recommend specific areas for deregulation;..;</li> <li>• Have its own secretariat;</li> <li>• Have the authority to review and revise GOJ measures on deregulation; and</li> <li>• Make proposals on a semi-annual basis, which should be ongoing and include timetables. ....</li> </ul>	<p>As referenced in the March Action Plan, in March 1994, Japan announced the establishment of a third-party organ which:</p> <ul style="list-style-type: none"> <li>• Can give advice on deregulation matters;</li> <li>• Is under the Prime Minister's Office; and</li> <li>• Has bureaucrats as members.</li> </ul> <p>According to the June 1994 Action Plan, the Office of the Trade and Investment Ombudsman will be used to promote deregulation.</p>
Foreign involvement .....	<p>Japan should immediately establish a mechanism for foreign firms to provide input into the deregulation process. Foreign entities' views on deregulation should be solicited on a regular and ongoing basis.</p> <p>Foreign firms should be permitted to make recommendations to the Japanese Government and to the Third Party Organ on Japanese deregulation proposals .....</p>	<p>March Action Plan notes that due account shall be paid to foreigners.</p> <p>June Action Plan was compiled in response to requests from inside and abroad.</p> <p>June Action Plan notes that opinions of those inside and abroad will be actively collected, and ministries concerned will endeavor to adopt less burdensome means for gathering and grasping these opinions.</p>

<sup>1</sup>The USG tabled these proposals on January 18, 1994, during discussions under the Competition and Deregulation Working Group within the Framework

## ANNEX 3—JAPAN CORPORATE PROGRAM (JCP)

The Japan Corporate Program (JCP) is a Department of Commerce trade promotion initiative to help U.S. firms establish and expand their presence in the Japanese market, identify barriers faced by U.S. firms in Japan, and create examples of successful marketing by U.S. firms.

The experiences of the JCP companies are a microcosm of the problems and successes experienced by many U.S. firms in Japan. We are monitoring the progress of the firms and incorporating the knowledge we gain into our counseling services for U.S. business.

Despite the recession in Japan, many companies have increased sales through high quality products, successful marketing and competitive prices. Yet many are facing problems of market access, patent and trademark, and recruitment. The Department believes that, ultimately, the program will influence Japan's perception of American firms' ability to compete and U.S. business' perception about the prospects for entering the Japanese market.

#### *Brief Status of JCP Firms, July 1994*

*ADC Telecommunications*—(telecommunications equipment) ADC faces stiff competition from Japanese telecommunication companies. ADC's challenge is to modify its existing products to meet Japanese standards while remaining price competitive or to identify and successfully develop a new or unique product for the Japanese market.

*American of Martinsville (AofM)*—(hotel furniture) AofM had no representation or sales in Japan at the beginning of the JCP. With DOC's help it found three distributors, achieved some name recognition, and received two small production projects and two sample projects, but it has not yet made the breakthrough in sales it expected.

*Applied Communications, Inc. (ACI)*—(electronic funds transfer software) ACI had approximately 60 percent of the world market for automatic teller machine (ATM) software in 1990, yet almost no sales in Japan. ACI's primary hurdle in Japan is the lack of 24-hour banking and a bias against non-local packaged software. This is slowly changing and ACI is well positioned to take advantage of the market when it opens.

*Candela Laser Corp.*—(medical laser devices) Candela is a fast growing company, and Japan is its largest export market. Candela has had three consecutive years of profitability in Japan. Its problems are slow drug and medical device approval; patent infringement; and a multi-layered distribution system. Candela feels that its participation in the JCP has led to faster approvals by the Ministry of Health and Welfare.

*Compaq Computer Corp.*—(personal computers) Sales boomed when Compaq introduced a made-for-Japan model in 1992. It started a price war and put pressure on NEC, which controls about 50 percent of the market, to cut prices and increase services. The JCP has given Compaq access to high-level U.S. and Japanese officials, increased its press coverage, and helped raise Compaq's profile in the market.

*Contact Lumber Company*—(wood molding and millwork) One of Contact's main obstacles is that U.S. millwork incurs a tariff in Japan while Southeast Asian products enter duty-free. DOC helped Contact by sending letters to prospective Japanese buyers. Contact's sales have increased each year.

*Dana Corp.*—(engine and drive train parts for motor vehicles) Dana has had an office in Tokyo since the mid-1970s. In Japan, it has business with three of the five largest Japanese vehicle makers. The Department has improved the business climate for Dana through the Automotive MOSS negotiations and the JCP. Sales have been slowly, but steadily, increasing.

*Detroit Center Tool (DCT)*—(automated welding, leak detection and laser systems) DCT received considerable exposure through the JCP and attributed its marked increase in sales inquiries to the program. By the end of 1991, it had sold to every major Japanese auto manufacturer. However, while DCT's sales efforts have remained intense, its customers have been severely affected by the recession.

*Electronic Data Systems (EDS)*—(systems integration) EDS found attracting qualified systems engineers and management personnel in Japan difficult, so it has used acquisitions to increase its staff and clients. The recession has made growth more difficult, but EDS feels it is poised to greatly increase sales in 1994.

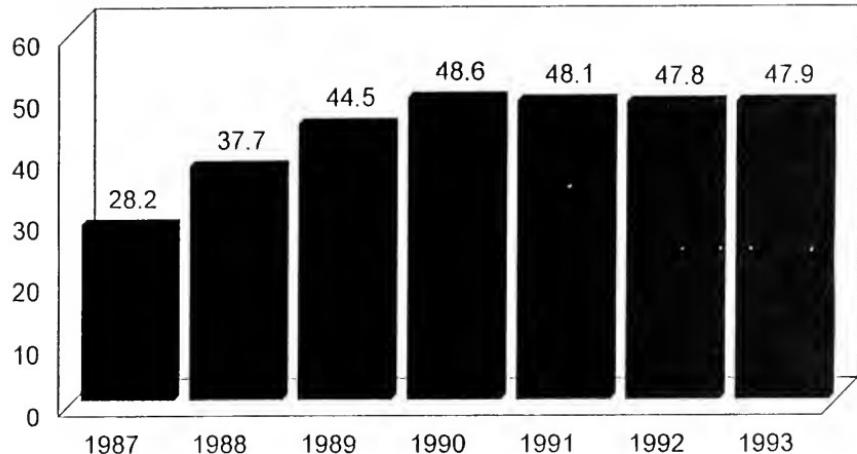
*General DataComm Inc. (GDC)*—(telecommunications equipment) GDC has been in the Japanese market for 18 years, facing increasingly stiff competition from Japanese telecommunications companies. It has elevated its commitment to Japan by staffing its long-vacant Japan office; working closely with the Embassy to explore

new sales prospects and better relationships with existing customers; and developing a long-term strategy in Japan.

*Guardian Industries Corp.*—(glass) Guardian faces an oligopoly in Japan. Flat glass was part of the 511 and now the Framework talks. Guardian feels the Japanese glass market will never open without pressure from the U.S. Government.

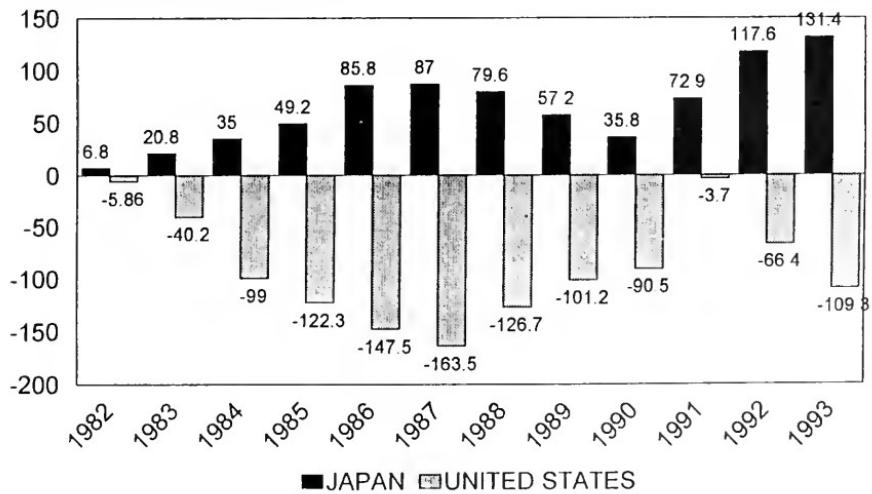
*Hurco Companies, Inc.*—(computer numerical controls for machine tools) Hurco faces fierce competition by numerous, globally-competitive Japanese companies which offer extensive post-sales service and quick parts supply. Like many small U.S. firms, Hurco is looking for a partner or distributor to help defray the costs.

CHART 1—U.S. MERCHANTISE EXPORTS TO JAPAN—U.S. MERCHANTISE EXPORTS INCREASED RAPIDLY FROM 1987–90, THEN LEVELED OFF AS JAPANESE GROWTH SLOWED; IN U.S. \$ BILLIONS



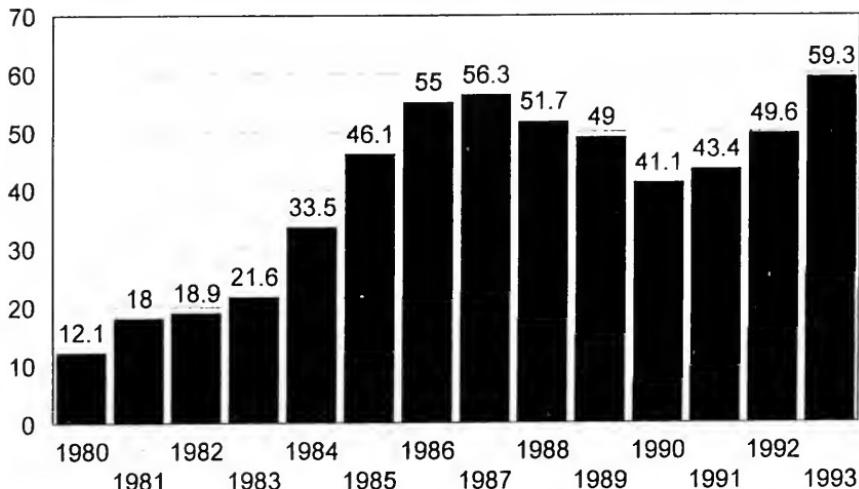
Source: Bureau of the Census.

CHART B—U.S. AND JAPANESE CURRENT ACCOUNT BALANCES, 1982–93—JAPAN'S CURRENT ACCOUNT SURPLUS REACHES A RECORD HIGH IN 1993, WHILE THE U.S. POSITION DETERIORATES; U.S. \$ BILLIONS



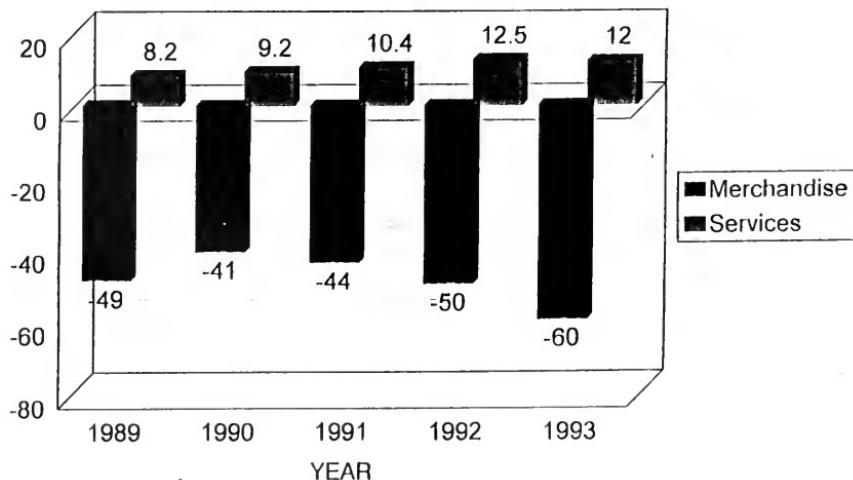
Source: IMF.

CHART C—U.S. MERCHANTISE TRADE DEFICIT WITH JAPAN—JAPAN'S MERCHANTISE TRADE SURPLUS WITH THE U.S. RISES IN THE 1990'S; IN U.S. \$ BILLIONS



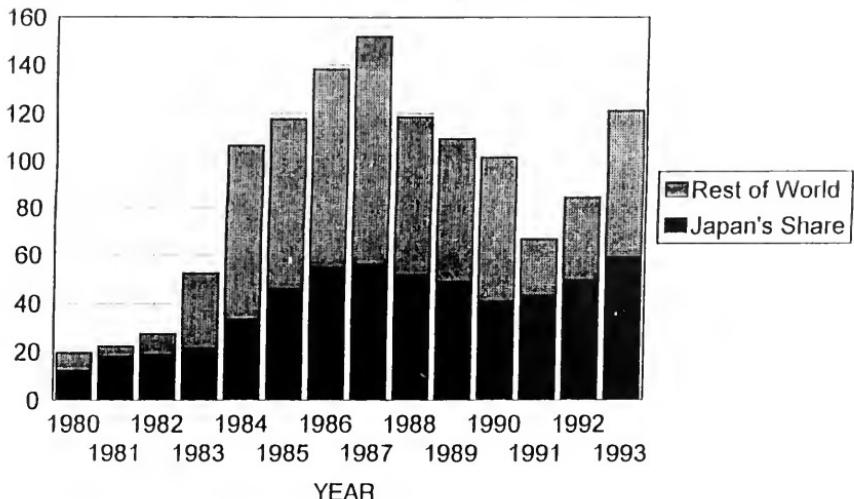
Source: DOC.

CHART C-1—U.S. TRADE BALANCES WITH JAPAN IN MERCHANTISE AND SERVICES—THE U.S. MERCHANTISE TRADE DEFICIT FAR OUTWEIGHS THE U.S. TRADE SURPLUS IN SERVICES; U.S. \$ BILLIONS



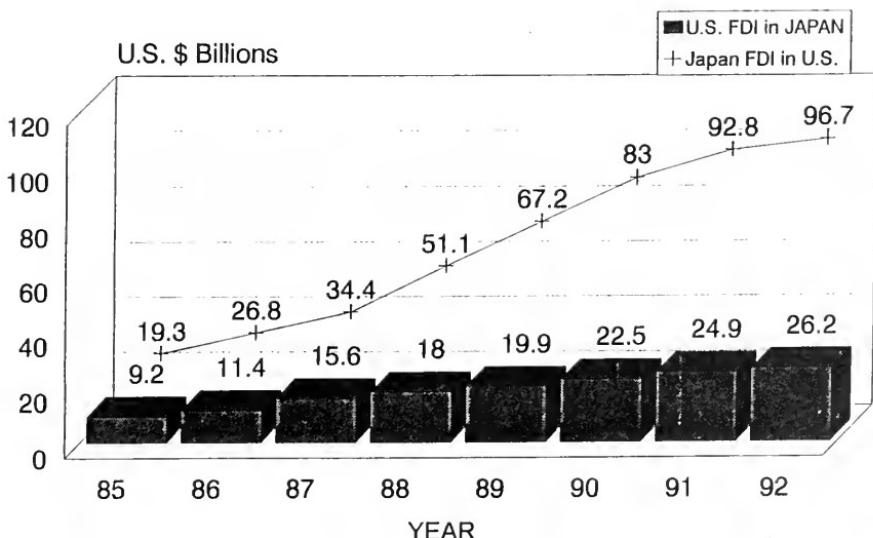
Source: DOC/ESA.

U.S. GLOBAL TRADE DEFICIT—JAPAN'S SHARE IN THE 1990'S RANGES FROM 40 TO 60 PERCENT; U.S. \$ BILLIONS



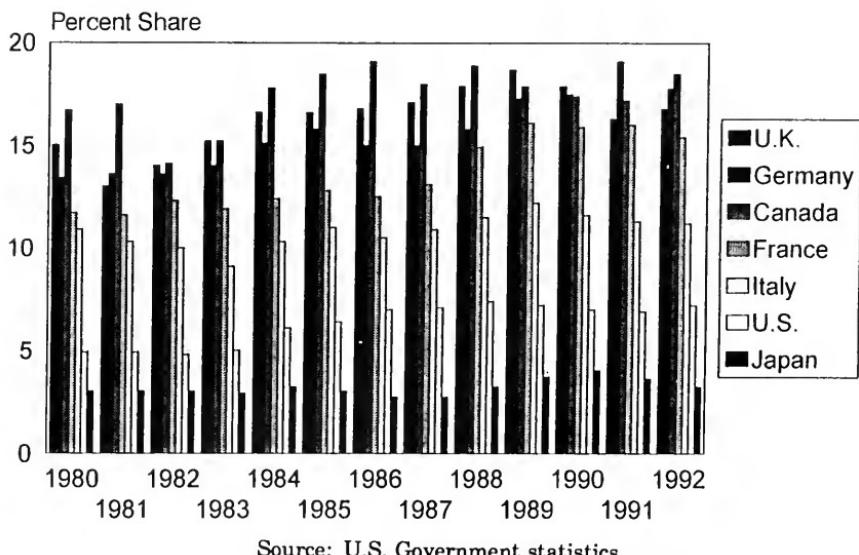
Source: USDOC.

CHART D-1—U.S.-JAPAN INVESTMENT BALANCES—JAPAN INVESTS FAR MORE IN THE U.S. THAN VICE VERSA



Note: Amounts reflect total stock of investment on a fiscal year basis.

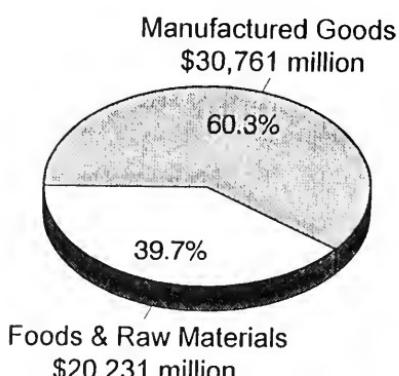
CHART D-2—THE G-7'S SHARE OF MANUFACTURED IMPORTS AS A PERCENT OF GDP—ON AVERAGE OTHER G-7 COUNTRIES IMPORT MORE MANUFACTURED GOODS RELATIVE TO THEIR GDP THAN JAPAN



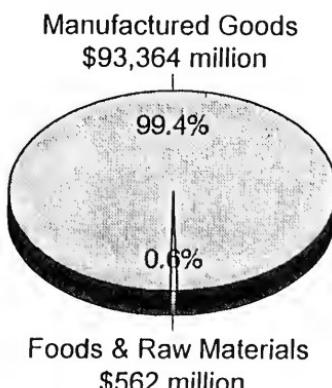
Source: U.S. Government statistics.

CHART D-3—COMPOSITION OF U.S.-JAPAN TRADE—THE U.S. IMPORTS SIGNIFICANTLY MORE MANUFACTURED GOODS FROM JAPAN THAN IT EXPORTS TO JAPAN

U.S. Exports to Japan

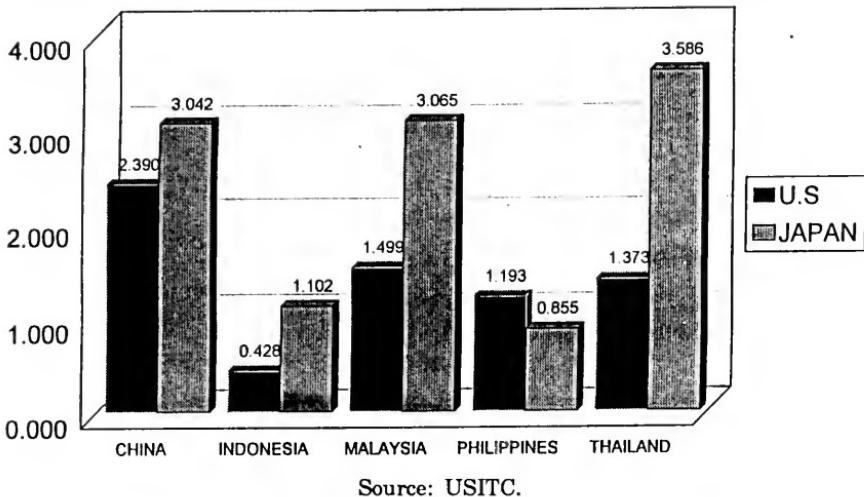


U.S. Imports From Japan



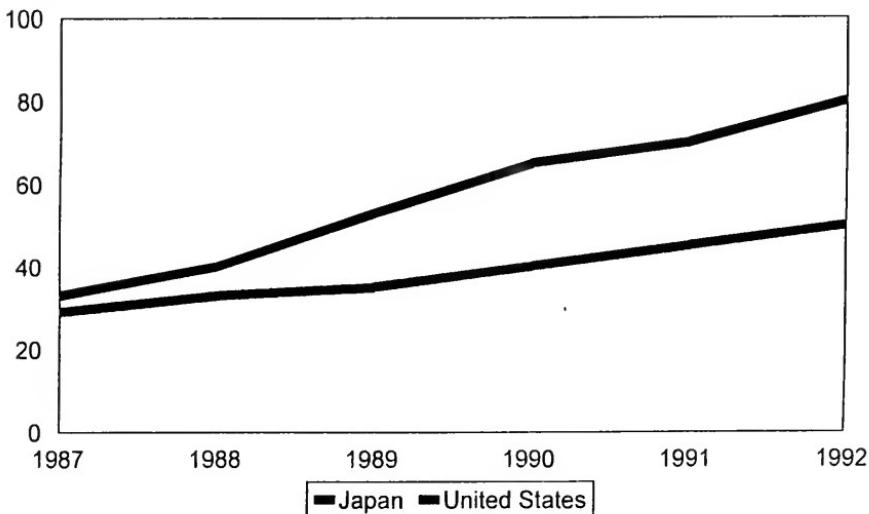
Source: MITI White Paper.

CHART E—U.S. AND JAPANESE FDI INFLOWS TO EAST ASIA, 1986–92—JAPAN'S FOREIGN DIRECT INVESTMENT IN EAST ASIA FAR SURPASSES THAT OF THE U.S.; U.S. \$ BILLIONS



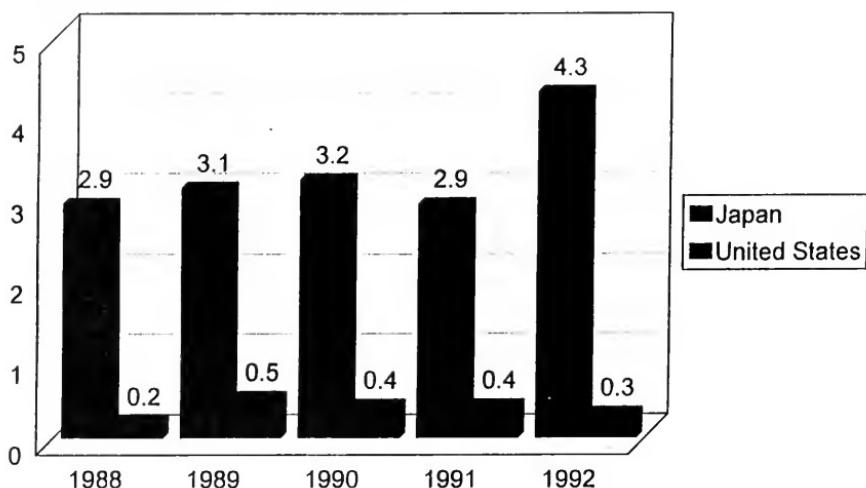
Source: USITC.

CHART F—U.S. AND JAPANESE TOTAL FOREIGN INVESTMENT STOCK IN EAST ASIA AND OCEANIA, 1987–92—JAPANESE INVESTMENT IN EAST ASIA AND OCEANIA HAS RISEN STEADILY SINCE 1985, OUTPACING U.S. INVESTMENT IN THE REGION; IN U.S. \$ BILLIONS



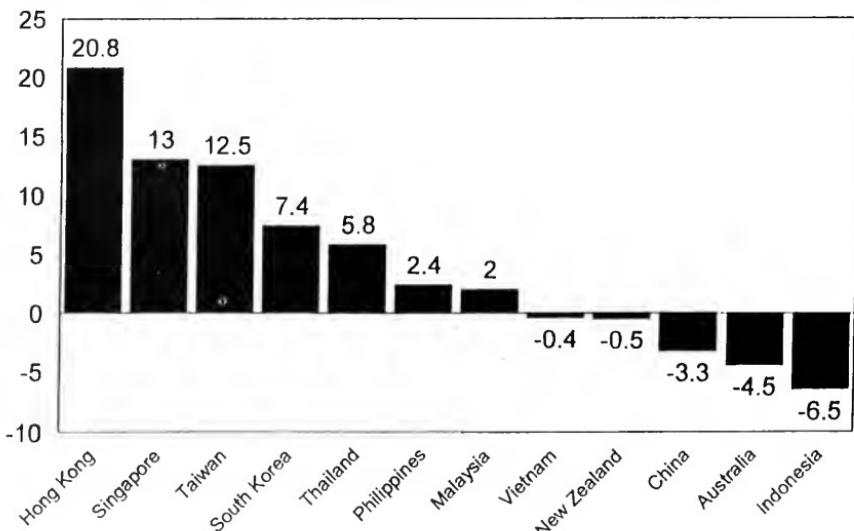
Source: Official U.S. and Japanese statistics.

CHART G—U.S. AND JAPANESE FOREIGN ECONOMIC ASSISTANCE TO EAST ASIA, 1988–92—  
JAPAN PROVIDES MORE THAN 50 PERCENT OF THE TOTAL BILATERAL AID GIVEN TO THE  
REGION EACH YEAR; IN U.S. \$ BILLIONS



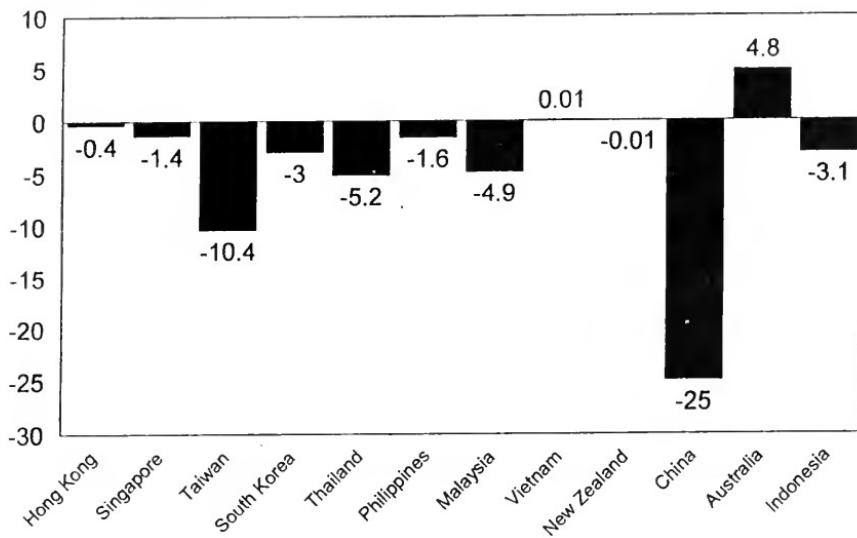
Source: Official U.S. and Japanese statistics.

CHART H—JAPAN'S TRADE BALANCE WITH COUNTRIES IN EAST ASIA AND OCEANIA,  
1993—WITH THE EXCEPTION OF RESOURCE-RICH COUNTRIES, JAPAN EXPORTS MORE  
THAN IT IMPORTS FROM COUNTRIES IN THE REGION; IN U.S. \$ BILLIONS



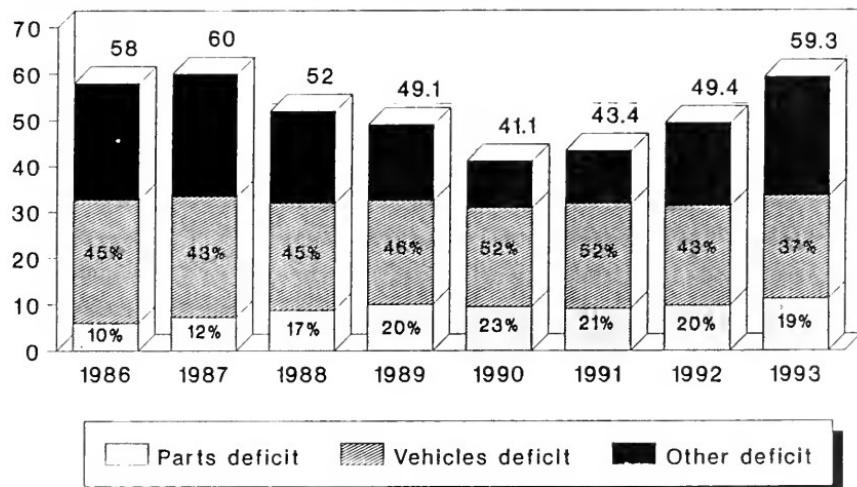
Source: United Nations.

CHART I—U.S. TRADE BALANCES WITH COUNTRIES IN EAST ASIA AND OCEANIA, 1993—THE U.S. PROVIDES SUBSTANTIAL EXPORT OPPORTUNITIES FOR COUNTRIES IN THE REGION; IN U.S. \$ BILLIONS



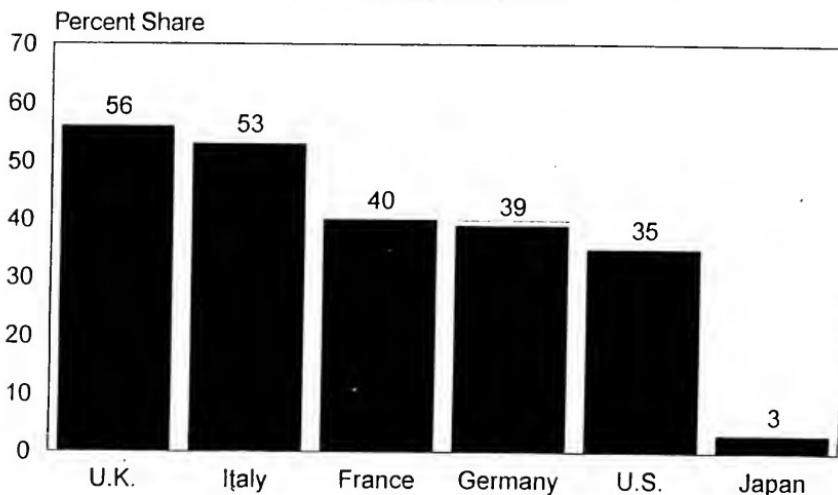
Source: United Nations.

CHART J—U.S.-JAPAN MERCHANTISE TRADE DEFICIT—MOTOR VEHICLES AND PARTS CONSTITUTE OVER HALF OF THE TRADE DEFICIT WITH JAPAN; BILLIONS OF U.S. DOLLARS



Source: U.S. Census Bureau.

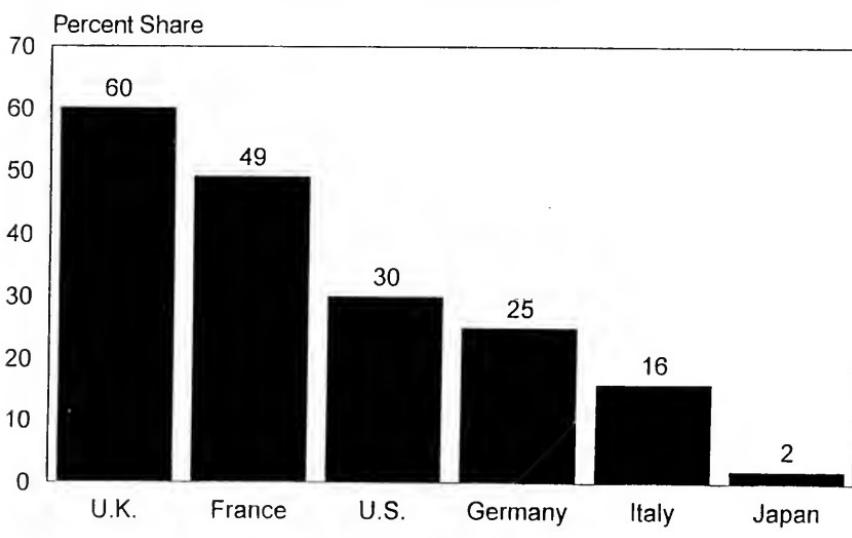
CHART K—MOTOR VEHICLE IMPORT SHARE—JAPAN'S IMPORT PENETRATION LAGS AMONG THE MAJOR MARKETS



Import shares for EU member states include vehicles imported from other EU countries. The U.S. import share includes vehicles imported from Canada and Mexico.

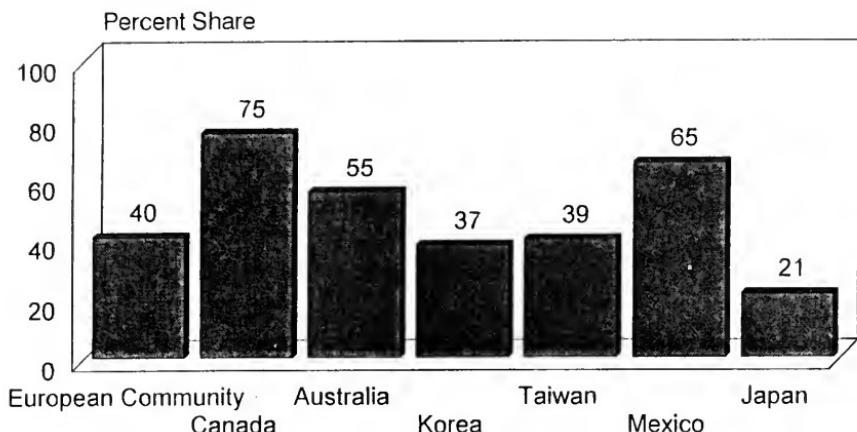
Source: World Motor Vehicle Data Book (1993 edition).

CHART L—AUTOMOTIVE PARTS IMPORT SHARE—JAPAN'S IMPORT PENETRATION LAGS AMONG THE MAJOR MARKETS



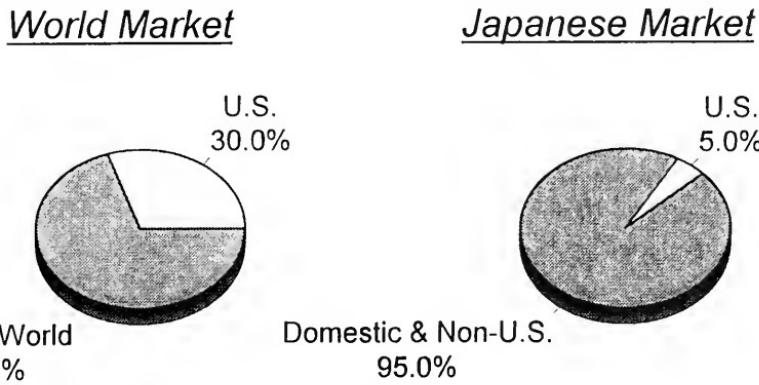
Source: U.S. Government reports.

CHART M—U.S. SHARE OF FOREIGN MARKETS IN MEDICAL TECHNOLOGIES—U.S. SHARE OF THE JAPANESE MARKET IS NOT COMMENSURATE WITH ITS SHARE IN OTHER DEVELOPED COUNTRY MARKETS



Source: USDOC.

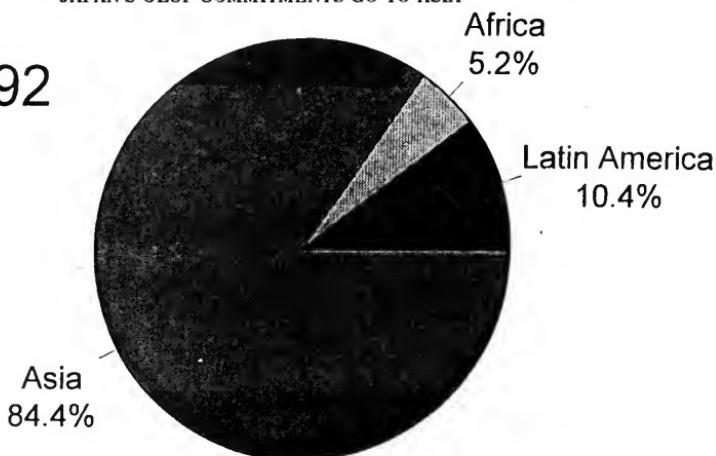
CHART N—U.S. COMPETITIVENESS IN THE TELECOMMUNICATIONS MARKET—U.S. SHARE OF JAPAN'S TELECOM MARKET DOES NOT REFLECT ITS GLOBAL COMPETITIVENESS



Source: USDOC.

CHART 0—GEOGRAPHICAL DISTRIBUTION OF OECF COMMITMENTS—THE MAJORITY OF JAPAN'S OECF COMMITMENTS GO TO ASIA

JFY 1992



Roughly \$7.1 billion (based on Y122.79=\$1). Middle East countries did not receive OECF commitments in JFY 92. Assistance to E. Europe does not classify as ODA because E. Europe's per capita income level is above the World Bank aid threshold.

CHART 1—JAPAN'S GLOBAL TRADE SURPLUS—SURPLUS GROWS EVEN AS YEN STRENGTHENS

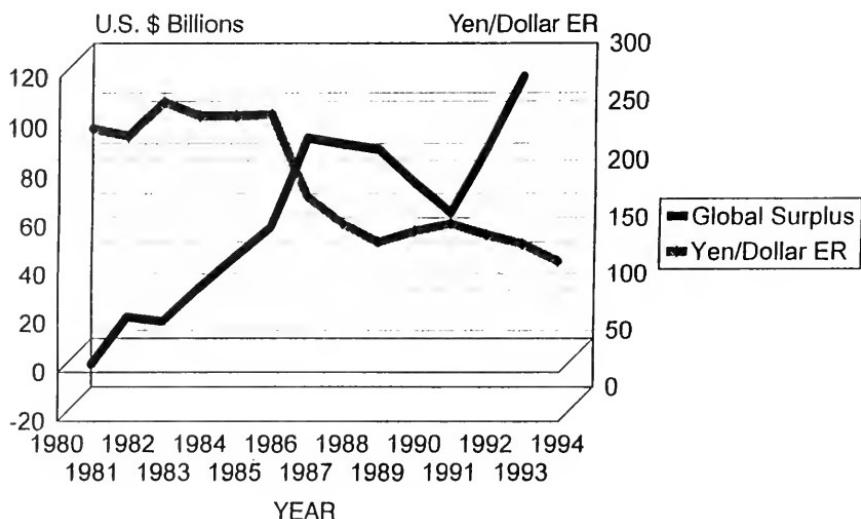
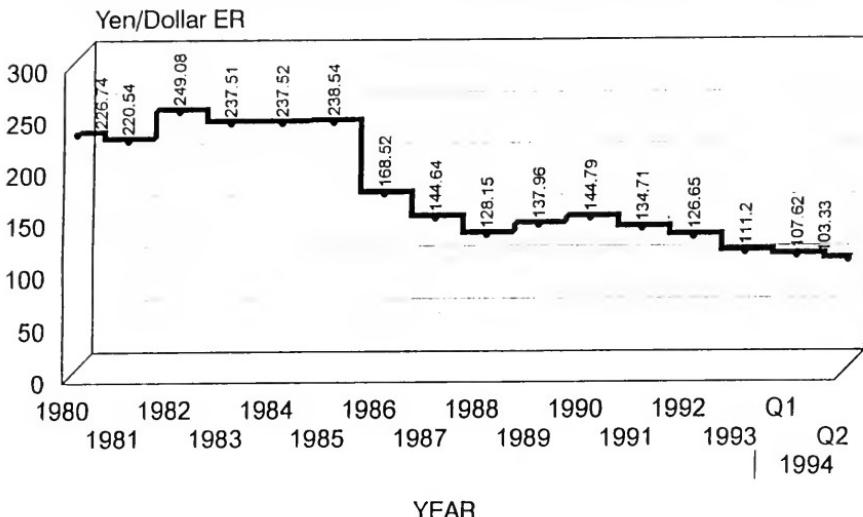
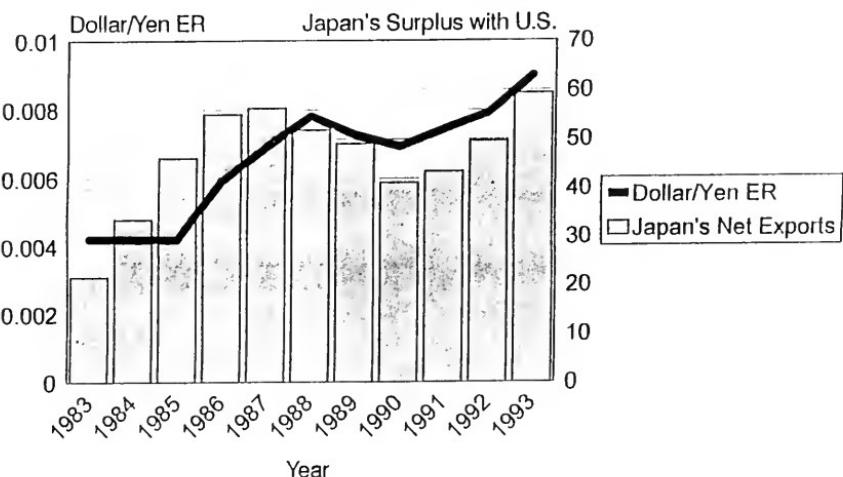


CHART 2—YEN-DOLLAR RELATIONSHIP—YEN APPRECIATES AGAINST THE DOLLAR



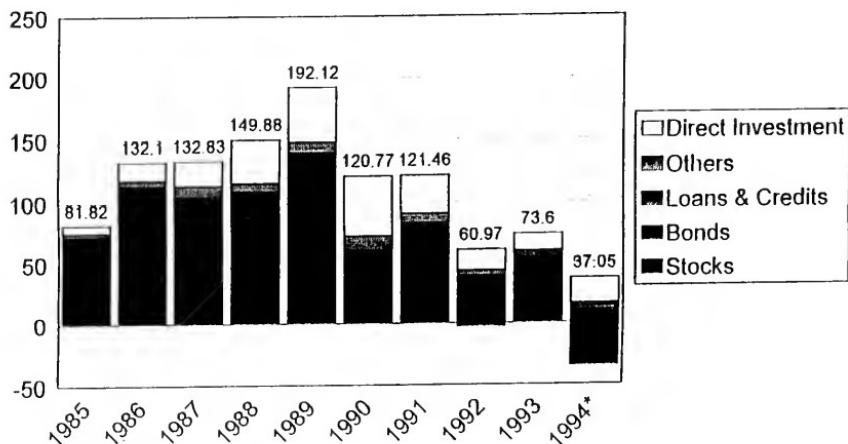
Source: IMF.

CHART 3—U.S.-JAPAN TRADE AND CURRENCY FLUCTUATIONS—DESPITE A STRONGER YEN, JAPAN'S EXPORTS GROW



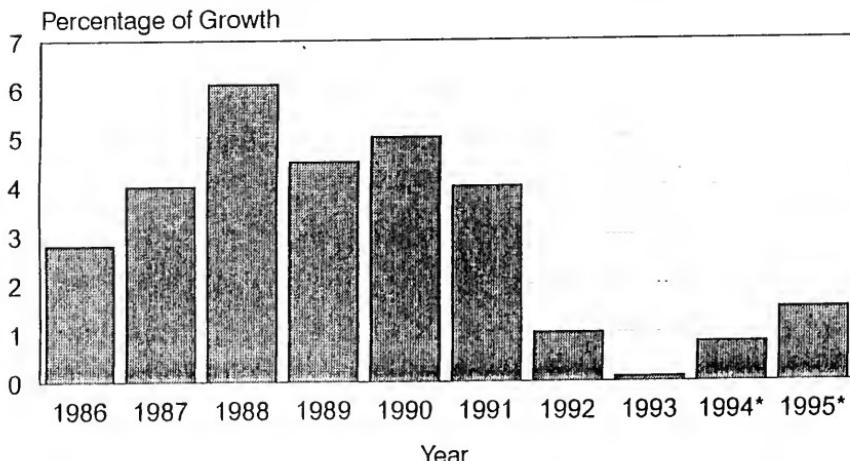
Source: IMF and USDOC.

CHART 4—JAPAN'S FOREIGN INVESTMENT, 1985–94—JAPAN'S FOREIGN INVESTMENTS DECLINE AS THE JAPANESE ECONOMY LINGERS IN RECESSION; U.S. \$ BILLIONS



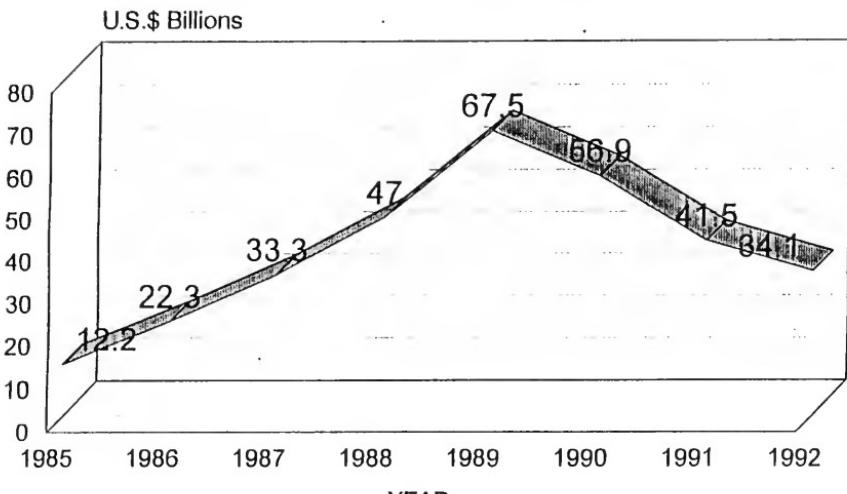
Source: Deutsche Bank Capital Markets (Asia)/Kenneth S. Courtis. (\*Figures for 1994 are estimates on the first three months of the year.)

CHART 5—REAL ANNUAL GROWTH RATE OF JAPAN'S GDP—JAPAN'S RECENT ECONOMIC RECESSION RESULTED IN RECORD LOW GROWTH RATES



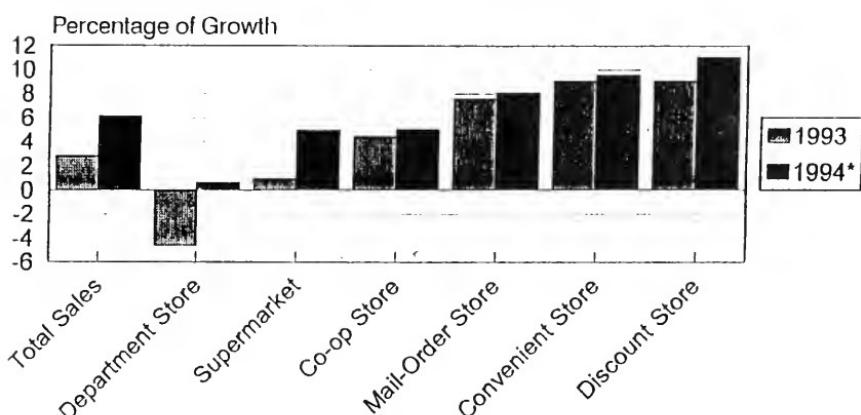
Source: Deutsche Bank Capital Markets (Asia)/Kenneth S. Courtis. (\*Figures for 1994 and 1995 are estimates.)

CHART 6—JAPAN'S TOTAL OVERSEAS DIRECT INVESTMENT—SURPLUSES HELP JAPAN INCREASE ITS PRESENCE OVERSEAS



Source: MOF.

CHART 7—JAPAN'S ANNUAL GROWTH OF RETAIL SALES BY TYPE OF STORES—PRICE CONSCIOUS JAPANESE CONSUMERS ARE MOVING AWAY FROM TRADITIONAL DEPARTMENT STORES TOWARD DISCOUNT STORES



Source: Deutsche Bank Capital Markets (Asia)/Kenneth S. Courtis. (\*Figures for 1994 are estimates.)

Senator KERRY. Thank you very much, Mr. Secretary.

I think, given the number of Senators here, we ought to put ourselves on a 10-minute clock, if we can, and use the lights, and let me just welcome my two colleagues. I do not know if they have any opening comments they would like to make. Senator Pressler.

## OPENING STATEMENT OF SENATOR PRESSLER

Senator PRESSLER. Mr. Chairman, thank you very much. On this very important subject, I have some interest in India and Pakistan, and some of our trade relations. Does that fall within the Pacific Rim? Is that within the realm of this hearing? I certainly hope so.

Senator KERRY. It is a little beyond the Rim, but we will accept it anyway. [Laughter.]

Senator PRESSLER. Regarding India, they are always complaining that under the new GATT they are going to have a hard time in both agriculture and computer programs. Is that true?

Senator KERRY. Before we get into questions, I am going to start my round of questions. I just wondered if you have any opening comments.

Senator PRESSLER. I will put my opening statement in the record. [The prepared statement of Senator Pressler follows:]

### PREPARED STATEMENT OF SENATOR PRESSLER

Mr. Chairman, I want to thank you for holding this hearing to discuss U.S. export promotion strategy in Asia.

Trade opportunities in the Pacific Rim are limitless. In addition to finding ways to open new markets in this region, efforts to promote democratic principles are closely related to reducing barriers to trade and investment.

This is most important to the United States, since 52 percent of United States exports, valued at \$218 billion, go to APEC members. U.S. trade to APEC members is growing faster than any other region in the world. The region also represents nearly 40 percent of all U.S. agricultural exports valued at \$16 billion.

One of my top priorities is to promote South Dakota agricultural products. Agriculture in South Dakota contributes nearly \$14 billion to the state's economy and it is the state's number one industry. Exports of South Dakota agricultural products are vital to the industry's success.

China represents a vast potential market for livestock and grain, import exports from South Dakota and the United States. Last year, South Dakota ranked third nationally in the increase of agricultural exports. South Dakota exports are led by feed grains, wheat, soybeans and livestock products.

History has taught us that economic growth is attained through freer trade. Being competitive in world markets is key to the future economic growth of the United States. The future strength of the United States will be determined on the economic playing field. This is symbolized in current U.S.-Japan trade disputes.

Recent trade negotiations have led to new trade agreements that will govern U.S. trade well into the next century. These new agreements also have expanded existing trading rules well beyond merchandise trade. These agreements will cover all sectors of world trade and addresses non-tariff trade barriers and other restrictive trade practices.

I look forward to hearing the testimony that is being presented today. Hopefully, many questions can be answered by their presentations.

Senator KERRY. Let me welcome the former chairman of the subcommittee, who did such an outstanding job of getting the TPCC active and up, and who has a huge interest in this arena, and I am glad to welcome you here. Senator Rockefeller.

Senator ROCKEFELLER. Mr. Chairman, I am overwhelmed by what you said, and you also said it before I got here.

I am happy about anybody who says nice things about anything to anybody these days—that is of importance—but I have no opening statement.

Senator KERRY. Let me begin, if I may, then.

Mr. Garten, you will accept the premise that the degree to which we are felt commercially in Asia is vital not only to the economic transaction but in much larger ways to the influence that we will wield to the willingness of countries to listen to us and be influ-

enced by us, and indeed, ultimately, the security interest. I take it you agree with that premise.

Mr. GARTEN. 100 percent.

Senator KERRY. And given the dynamism of these markets, China with 1.2 billion people and India, if we include it in the region, with almost 1 billion, and then Indonesia and Malaysia with similar sums of people, and the Philippines and so forth, you really have a dramatic, energetic, dynamic economic model at the moment which presents a number of challenges.

But the bottom line is, is it your judgment, measured against that, particularly witnessing the efforts of, say, the French, the real politic which they applied recently to a shift from Taiwan to China in terms of sales, the Germans or others who are present in the region and have been for some time in powerplants infrastructure development, and so forth, and the recent loss of Boeing to Airbus for Vietnam Airlines because of the embargo, and so forth, when you measure the breadth of the competitor nations' involvements versus ours, my question to you is, Can you really say that there is at this moment the kind of implemented sense of urgency that you have described?

Mr. GARTEN. Well, I would say that—if I could rephrase the question, if you ask, are we where we want to be now, the answer in my view is clearly no. If you ask, are we on the way, I would say there is a good chance.

I think that at least—I have been in the administration since November, and what I have seen just in that time in terms of the amount of effort that is going into developing an Asian commercial strategy is very significant, and what I see coming down the road just in the next year is also very significant.

Let me give you an example. We have established in the Commerce Department an advocacy center where we are tracking 75 of the largest projects around the world, and we are developing a strategy for every one, and we have people like Secretary Brown and Secretary Christopher and Secretary Bentsen, who are now traveling regularly to Asia—Secretary Brown, for example, is going for a week in August to China, and a very major part of his portfolio is a focus on billions of dollars' worth of American business, and it is just not that he is going. We have developed the strategy.

I just came back—in fact, I have been twice, and we are putting a lot of effort into this kind of thing. We are doing the same in Indonesia. We set up—we are about to open a commercial center in Indonesia along the lines, exact lines that you have advocated, and we are now considering doing the same thing in China. I do not know where we will get the resources, but we know it should be done.

I just think that we are on the way to a very aggressive strategy. I will tell you something else we would like to do. We would like to develop a large-scale training program for Asian entrepreneurs, Asian managers, programs that will give them much more familiarity with American business systems, that will make it much more congenial for them to deal with American companies, to order American equipment, to have American services.

So, my point is that in a short period of time we have come from almost zero to gathering a lot of momentum, but underlying your

question—and I am extremely sympathetic to what underlies your question. We have got to continue this, the momentum. We are not at cruising—if we are at cruising speed, we are in big trouble. We have got to accelerate these efforts. We have got to develop them in much more detail with more resources and with more urgency, because—

Senator KERRY. My fear is that over the years we have come to understand too frighteningly how the bureaucracy moves and how it works, and you have got 17 or 19 agencies there you are trying to coordinate. Each has turf interests, and so forth. My sense is—I mean, if you look at this year's budget—we have put extra money in, not you. I mean, the chairman, Chairman Hollings, has responded to the need more than the administration has.

My question is why the administration is not coming in here with a major shift? If we are going to talk about resourcing and urgencies, it seems to me far more urgent to be involved in this particular sector than having 75 percent of our export promotion in agriculture. Why?

Mr. GARTEN. Well, let me deal with the whole budget question, and obviously the starting point is that the overall fiscal situation which the administration is committed to improving.

When it comes to export promotion, before we request large additional sums we want to make sure that what we are using we are using effectively. The fact is that before the Senate Banking Committee really mandated a national export strategy we had programs all over the place, some of which were worthless, some of which could be consolidated. And our posture right now is to wring the most out of what we have, and to able to at least the question which we must ask, I believe, as responsible officials, How do you measure where incremental resources should go?

Now, in this upcoming TPCC report, we are going to have a lot of information on a national export budget. We are going to do it in two slices. Because of the budget cycle we will not be able to make a recommendation for 1996 in September, when the report comes out, but we will give you the information you need to see how money is being spent by geographical region, by sector, by function. And then in January we will make a more formal recommendation about resources for the future.

My instinct tells me that we will be requiring significant increases in resources as time goes on. But we do not want to make that request until we are quite sure about what we have got and that we are using it really effectively.

Senator KERRY. You realize that is going to put you 3 years into the administration before there is a proposal to change.

Mr. GARTEN. Well, the only thing is that it is just the constraints on the Federal resources are such that I think that I think that we can get a lot of bang for the buck even with what we are doing by making sure that we are focusing on the right things.

Just to go back to the Japan export strategy, we have 63 people in the Embassy in Tokyo whose job is export promotion. And we have, I do not know, maybe 15 or 20 here in Washington. And that is a lot of people. I mean, we want to be sure that they are really focused.

My impression is that—

Senator KERRY. Can I ask you a question, Jeff? First of all, we know pretty well what gets in and what does not in Japan, and the framework talks are focused on trying to break that open.

Now, are these folks in the Foreign Service, the 64 you mentioned, specifically involved in that?

Mr. GARTEN. No.

Senator KERRY. Therefore they have not got much to do if the market is not open.

Mr. GARTEN. Well, I would not look at it that way. Let me go back to the information technology example I used.

In the framework agreement we are negotiating over Government procurement, and one of the areas there is telecommunications equipment. But the information technology sector is much broader than that. It is not just the Japanese Government, it is also Japanese firms. It relates to deregulation. It relates to intellectual property rights.

There is a lot to do over and above the framework, and I think we would be ill advised if our whole policy toward Japan was just immediate market access. I mean, there are lots of cracks in the Japanese market.

Senator KERRY. I agree with that completely, and I am not advocating that it ought to be, but I am questioning why—I mean, it should not take a manager very long to know, and you very long to know, if 64 people in the Embassy are busy or not.

Mr. GARTEN. Oh, they are busy.

Senator KERRY. Let us cable Fritz Mondale and find out are they working or are they not. And you ought to be able to measure fairly rapidly what they are producing. If we do not have a mechanism for that in after 3 years, I am skeptical about what is going to be the sudden source of judgment here.

Mr. GARTEN. Well, they are producing a lot. The question is how much more can they produce? How much more can this group of people produce if they are focused and if they have a long-term strategy?

Senator KERRY. But we know we are not producing enough out of Hong Kong. We know we are not producing enough of Jakarta, out of Kuala Lumpur, out of Bangkok, out of Delhi and places. I mean, we know that.

Mr. GARTEN. In those areas I know that we can do better.

Senator KERRY. Does it therefore require a shift of people from Japan, or at least a request for more?

Mr. GARTEN. Well, I would not say that Ambassador Mondale is asking for a lot more people in Japan.

Senator KERRY. Well, that is my point. I do not disagree with him.

Can you just answer my question about why it is we spend 74 percent of all our export promotion money on agriculture, and yet agriculture accounts for only 10 percent of our exports? That just does not make sense to me.

Mr. GARTEN. Well, I think this is a question that is going to have to be looked at by the TPCC over time. We are, as you know, wrestling with the overall export promotion budget, and agriculture is a member of the TPCC. We eventually want to come up with the most rational allocation of these funds.

Senator KERRY. Well, on the surface is that rational? Can you tell me whether there is any judgment made about that now?

Mr. GARTEN. On the surface—I better not comment on this right now. But I think that there are—you know, agriculture has been a mainstay of the economy, and a lot of them—I do not deal with agriculture, but my understanding is that a lot of the money which is classified as funds to promote agriculture, agricultural exports, is in categories that are—

Senator KERRY. Are we spending any money to promote the export of rice to Japan?

Mr. GARTEN. I do not know. I do not know how that works.

Senator KERRY. Well, my point—listen, I am very sympathetic to what you are up against, but I am trying to underscore and I want to bring out into the light here today the gap between urgency and what happens when everyone is as turf conscious as they tend to be around here, and you wind up getting committed to death.

Mr. GARTEN. I do not think the problem when it comes to export promotion is turf. At least my experience in the administration so far has been that this is a winner as far as everyone is concerned. We have not run into any resistance in the TPCC about programs to promote exports. We have not run into any interagency conflicts that somebody does not want to promote exports or someone is not willing to contribute.

Senator KERRY. But if you were going to look at a job creation/revenue raiser, and you look at the trouble the President's jobs investment package ran into at the beginning of the year, when you measure what you get for the dollar invested here it is a pretty easy sell. And what is amazing to me is that we are now going into the third budget cycle and I do not feel that sell yet.

Now, I think that when you look at what is going to happen in Asia in terms of—I mean, look, we have built one airport in 20 years in the United States of America.

Mr. GARTEN. There are four being built in southern China alone.

Senator KERRY. Correct, 4 in Southern China, and 10 in the region, in Asia. I mean, that is just the difference. Now, all of those facilities, all of those control facilities, airport control, et cetera, are just one piece of the infrastructure development in transportation, in communications, and so forth that is going to take place.

I again want to stress that I think there is still a gap in terms of the urgency of our upgrading of presence. I know you are struggling to do this. I know you personally want to do it. I know that Ron Brown wants to do it. But I think the administration has got to grapple more with the placement of the resources where the intention is, if you will, at a more rapid rate.

Senator Pressler.

Senator PRESSLER. Following up on some of those questions, I have often wondered when the President of France or the Chancellor of Germany, when he travels in these countries, how does it work? How do they get all these sales? Do they give foreign aid right there on the spot in connection with contracts? I mean, is it because their businessmen are so close to government? You mentioned it was sort of like foreign aid.

But we have, of course, a separation of business from government theoretically, and our Embassies, at least, cannot promote

one company or another, whereas I suppose the Germans or the French, they decide on which company and they promote it or give low-interest loans.

But I have always wondered. These foreign heads of state traveling particularly in Asia, they announce how many millions of dollars' worth of contracts were signed, whereas our Secretary of State or President, we really do not operate that way. Should we change that?

First of all, how does it work when these guys from Germany and France, when the head of state travels? Do they sign the contracts on the spot or what?

Mr. GARTEN. Well, there is a long difference in tradition, as I think you were intimating. In Europe and in Japan the relationship of the government to the private sector has been much more intimate and supportive, and so the expectation of what the government will do is much higher. And I think it is only in recent years, maybe even in recent months, that we have begun to think about that kind of government-industry partnership when it comes to export promotion.

The French and the Germans and the British and the Japanese have also focused on exports much, much longer than we have. This is a relatively recent phenomenon in U.S. history. So, their kind of tradition of trade missions and the way they prepare for them is far greater than what we do.

But the big difference now is in the financing. And what we do not do, and what they do, is they will provide large-scale financial packages to the governments and say that that money is available so long as the exports come from the home country.

We do not do that. All of our assistance, first of all, is export financing. It is basically commercial. And, second, it is related to a specific project. Just to give you an example, there was an incident recently where we lost a project with export financing. The government came to us and said, can we use this for something else? And we said no, of course not. This was based on an examination of the project itself.

So, we have a much different way of doing this, and I think the whole method of high-level, intensive trade missions is something that we are learning to do, and we are learning very fast, incidentally. We just won a very major project in Brazil, as you may have read. We competed fiercely with the French. It was the French Government and French nationalized firms. And President Clinton weighed in. Secretary Brown went down to Brazil. We had two other Cabinet officers who intervened. We had the head of NASA. We had the head of the Environmental Protection Agency. And it was full court press. And that is what we are going to have to do, and that is what we are prepared to do on project after project.

In the end my feeling is our method will be different. We will never have the kind of relationship between a government and business as exists in these other countries. And the other thing which you mention is in many of these cases there are two or three American firms that are bidding. It does not happen so often with these other countries either because they make the deal in advance or they form a consortium. They are not constricted or restricted by the same kind of antitrust considerations.

Or else they are smaller. I mean, there are only two or three auto companies in France, and most likely there is only one or two that would even have the resources to bid on these big projects, and we always have three.

So, I just think—it is a long-winded way of saying we are going to have to do it our own way. We are becoming increasingly aggressive. I think we can compete with these countries even without the same level of financing because our technology is superior, and the preference all over Asia is for U.S. firms if we are even in the ballpark on financing.

Senator PRESSLER. Would you support any changes in the Corrupt Foreign Practices Act?

Ms. GARTEN. No.

Senator PRESSLER. You would leave it just as it is?

Mr. GARTEN. Absolutely.

Senator PRESSLER. Now, does this have a chilling effect? I mean, a very honest businessman who has no intention of paying a bribe, in some of these countries in Asia there is a tradition of a middle person or a commission or something like that, and it really puts a chilling effect on some of our business people to be accused of being a criminal for hiring someone to go out and look for business, basically. Do you think that there is any problem here?

Mr. GARTEN. Well, I would not deny that there are times when American firms are at a "competitive disadvantage," and I put that in quotes, a competitive disadvantage because they cannot engage in some of the local practices. But that just comes with our territory.

And I have questioned many, many firms on the spot in Asia and here in the States, and I just do not believe that this is a kind of competitive disadvantage that is material for us as a nation. I do not deny that in some cases maybe somebody will lose a contract, but it is inconceivable to me how we could lower our standards.

I think all the effort ought to be exactly the opposite—to expose corruption, to try to get some harmonized guidelines among the OECD countries. And I think a lot of the corruption that we talk about will also be lessened as many of these countries develop, and they have a more vigorous press, and they have more transparency, and their democratic systems mature. But I just do not see any scenario in which it would be desirable for us to relax our standards in this area.

Senator PRESSLER. What do you see as the main trade problems with India and Pakistan?

Mr. GARTEN. I am not an expert on these two countries. I would talk about India a little bit more because we have been really focusing on India now as a big emerging market. They have made very significant progress in terms of economic reforms. We think at the Commerce Department that this time these reforms are going to stick. And we have just reinvigorated or reconstituted an economic commission between the U.S. Government and India.

We are going to attempt to develop some commercial programs in four or five key sectors. We think that this is a market that is worth very, very vigorous pursuit, not just in terms of selling but also in terms of working with the Indians to further their reforms.

We are quite bullish. In addition, we think this is a place we cannot afford to neglect commercially, as we have in the past.

I am sorry, but I do not know enough about Pakistan to comment on it.

Senator PRESSLER. Thank you very much.

Senator KERRY. Thank you, Senator Pressler.

Senator Rockefeller.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Secretary Garten, I do share Chairman Kerry's frustration because I can remember, John, 4 years ago I was in some motel somewhere, because I was campaigning. And I remember having a discussion with Bruce Stokes of the National Journal and talking about what you just talked about, the 74 percent spent on 10 percent of what we export, which is agriculture. And then you ask Jeff Garten, what are you doing about it—this was 4 years ago—and then, as you indicated, we have around TPCC, all the rest of it, 4 years goes by, which is a long time, the Clinton administration comes in with a very aggressive technological base all for S. 4 and venture capital for critical technologies, I think, and all of these things, and yet when you answered John Kerry's question you said this is something for our group to consider in time, when he specifically asked about the 74 percent.

I would have thought that you would have been sitting there uncomfortably in your seat thinking, who am I going to protect for this outrageous lapse of action over the course of these years. This is not a new subject, but it is a highly symbolic one. In other words, we have got one-stop shopping going, we have got the Foreign Commercial Service working to familiarize themselves with the Export-Import Bank and OPIC, and now, they do not make the financial decisions but yes they can help fill out the forms. And incidentally, that is meant to be directed to small- and medium-sized businesses, and yes, you do talk about Secretary Brown and President Clinton and others going down to Brazil and other places on big contracts. But none of this was aimed at big contracts. This is all aimed at small- and medium-sized businesses. That was the whole point of the thing.

The whole point was that Export-Import Bank is about 20 big businesses and they get all the money and that is what we have got to get away from. And it is places in Massachusetts and West Virginia that have good ideas and they want to export but they do not know how to, and that is what the whole thing was for. And so at least the integration of the budget for export promotion—I mean, I am interested, frankly, in what has the Department done about the ratio of political officers to commercial officers in foreign Embassies. In other words, what have you done beyond what we were talking about to give small- and medium-sized businesses, who would have tremendous export capability if they only knew that they could do it and had the courage to do it, could get the money to do it, and there is nobody to see in order to do it.

The first thing when I walked in here very late, for which I apologize, was your answer, well, this is something that we have to look at in good time, 74 percent for agriculture. Tell the chairman and myself the aggressive things. In the briefing that was done for me for this it says the U.S. Department of Commerce has

embraced these notions. Now various things come to mind when I hear the word "embrace," but embracing notions is not what I call the proactive Clinton administration that I voted for and want to help and want to vote for again. And so I guess I am trying to be slightly obnoxious and trying to get you to be more aggressive about answering questions less protectively, less defensively.

Mr. GARTEN. Let me address this question of small- and medium-sized business as the underlying theme for the export promotion strategy.

Senator ROCKEFELLER. No, no, no. We are going to start with the 74 percent. I am really upset by that. I am really upset by that, that you would answer the question that way. My conversation with Bruce Stokes was 4 years ago, because that is when I ran, and I remember it. It was in a motel somewhere in West Virginia. And I am serious, Jeff.

Mr. GARTEN. Well, the question that you are raising, the allocation of money between agriculture and industry when it comes to exports, is a very fundamental national question. It goes well beyond me, as you know. And I am not saying that this is not an issue that we have not thought about. But it would be pretty naive to say that this is anything that can be handled other than in a major, major set of political decisions that—in my view with not just the administration but also the Congress.

We are focusing as best we can on how to promote exports in every conceivable area, including agriculture. These financial allocations just have not been made yet. I am not evading the question.

Senator KERRY. Would you yield just for a minute, my colleague, and I will give you back the time on the other side?

Senator ROCKEFELLER. We are on the same side. [Laughter.]

Senator KERRY. Usually. I will give you back all the time you need on whatever side you want to be.

Is it not a reality—I mean, let us go back to the Banking Committee, which I also sit on, where this issue was heard. Now, we know that ag-State Senators do not want the money touched. You do not have to take the money away. The ag money can be good money, too. This is also jobs, it is also worthy expenditure. Is not the more fundamental issue, rather than keep this tiny pie and divide up the ag piece and get the wrath of the ag Senators, which we understand would occur, but to keep them happy by making sure that that expenditure takes place because that is an important sector, but augment the other? But there was no proposal to do that.

Mr. GARTEN. Well, the national export strategy was just announced last September, and the report on the future budget is coming out this September. And I realize that from your standpoint this is the same old stuff that has been going on for years, but for an administration that just got the national export strategy off the ground, all of these issues will be dealt with.

And the question that you are posing is whether or not we need more resources for the nonag part of export promotion. Of course, we will look at that. I am in an awkward position because these kinds of budget proposals have to be administrationwide. We are just in an era where there are no increases overall. Whatever is

augmented in one area comes out of another, as we know only too well.

Senator KERRY. That is, providing you decide to live within your current revenue stream. As long as we are playing the zero-sum game, that is true. But that is another choice of the administration.

The House voted a 9-percent gas tax and the President decided to back off without a fight in the Senate, and so we settled for 4.3 percent. That is the difference. So again, that is larger than your current choicemaking.

But we really want you, I think, the Senator and I, to go back, and we are obviously going to weigh in with the Secretary and with others on this, but it is important to begin to surface this.

I am sorry, Senator Rockefeller.

Senator ROCKEFELLER. I agree with that. And you know, you have to say that I think the Department of Commerce right now is kind of a real star in the administration among Cabinet agencies, and it actually was kind of interesting to watch it, John, because in the beginning Ron Brown was kind of slow in getting people and people were saying, gee, this guy is so aggressive but he is not getting the people that he wants. But it is just all beginning to change and now all of a sudden it is just taking off like a rocket, which actually just makes me want to be more obnoxious in my questioning because there is so much capacity there, there is so much brain power, there is so much drive. Ron Brown has such intuitive skills for the job that he has. Given a chance, he is going to be a really great, great Secretary of Commerce.

But let me just ask you, along with what John was talking about, three questions. Maybe we should not always talk macro. Let us not talk about number of commercial officers versus political officers in the Jakarta Embassy, but in the framework talks we have agreed that medical technology and computers, things of that sort, software, is important.

And then you come to this interesting phenomenon of China, which is gearing up, which means they are going to have to build a ton of new powerplants which they are obviously very able to do. Unlike Japan, they probably will not go nuclear as much as they will use coal, which is going to send endless clouds of sulphur dioxides, according to the prevailing winds, right over Japan, all four islands. And so the whole question of we, who are the world leaders in the production of pollution abatement, we just do that because the Clean Air Act said that we had to do it faster and we are doing it faster.

Now, two of those are stipulated, software and medical technology. The third one just sits out like such a sore thumb that you could not drive to work without saluting it. Here is a country which is meant to have one-half the demand for pagers in the world sometime in the next century, it is growing so fast. So, they are going to have to have all this power, probably will not be atomic. They have all the coal in the world, coal just coming out—I mean, endless coal. So, what are we doing about that?

Have you thought about that, about pollution abatement, how do you hook this up? I know some people, some American entrepreneurs, who are thinking about this, and I wondered if you are?

Mr. GARTEN. Absolutely.

Senator ROCKEFELLER. And you understand what is going to happen to Japan? This is all going to blow right over Japan, and then if it rains, which it does often there, right into Japan.

Mr. GARTEN. The whole question of promoting exports in environmental technology is one of the highest priorities of our national export strategy. I just came back from a week in China, and Secretary Brown is going next month, and we are making exports of environmental technology, investments in environmental technology, one of our highest priorities there.

Senator ROCKEFELLER. What does that mean? You talk with people about actually doing it?

Mr. GARTEN. Oh, yes.

Senator ROCKEFELLER. You talk to the American companies?

Mr. GARTEN. Absolutely.

Senator ROCKEFELLER. You have American companies hooked up?

Mr. GARTEN. I went with a Government delegation; Secretary Brown is going to be bringing companies over there. But in China the first requirement is to find who is the counterpart. It is not like going to France because it is all state-run, and we have located the state agencies that would purchase environmental technology, and in fact I had a discussion with the trade minister saying that when Secretary Brown comes over there this is one of the areas that we are really interested in.

Senator ROCKEFELLER. The people I know who are looking at this are going to the Japanese, in whose self-interest it is to start producing pollution abatement equipment a lot faster than us because they are the ones—and they are talking about putting up billions of dollars for this. And so we have got direct competition staring at us.

Mr. GARTEN. Absolutely. And it is not just the Japanese, it is the Germans, as well. The Germans have made it maybe their top priority in terms of export strategies and environmental equipment, and they are not only competing with us, incidentally, in Asia but also in Latin America. They are all over Mexico, for example. And it is highly competitive.

I think there is a chance—you did not ask this question, but I think there is a chance that we can cooperate with the Japanese in some areas in order to make joint investments in China. But the field is so large and we are so competitive and, as you say, so advanced, that I think this is a tremendous opportunity for us.

But I would like to just make one gratuitous comment here, and that is that I ask the question, What is the responsibility of the Government, of our Government? Now, you asked, What does it mean to make it a priority? We are going to find out where in China environmental technology is purchased. It is not necessarily purchased by the firm that is polluting the atmosphere. That may be owned or governed by a ministry. We are going to put out as much information as we can to the U.S. private sector through the one-stop shops, through the district offices, to the small- and medium-sized firms just as you mentioned, because in many cases that is our market for environmental technology. It is not necessarily the big companies. We will lead trade missions to China. We will do all these things.

But if the American companies are not motivated to stick it out, because this is not easy business to do, we will not get it. And part of our—one thing I always feel sort of compelled to raise in discussions like this, which I think are so important, is that we have a national export strategy, the Government is doing a lot, but in the end—in the end—in our system our firms have got to go out there, they have got to make the long-term commitments, and they have got to stick it out. This is not like going and making a contract and banking the money. It is tough business.

Senator ROCKEFELLER. John, we have got a vote. I will make this my last comment. I am just going to sort of put this at you as a motivator. In 1986, when John Kerry and I were sitting in the 99th and 100th seat side by side in the U.S. Senate, for some reason which will never occur to me, and I think the only reason is, for some reason which also has not occurred in me, Dole took an interest in it. We got something passed called the Japanese Technology Literature Act. And it was really messed up. Jacob Javits' daughter was trying her very best, but the Bush administration did not have any interest whatsoever, and the whole idea is the Japanese were putting out 10,000 technological journals a year and some of them had to be interesting because, was not Japan really doing quite well? U.S. industry did not have any interest. The only private sector effort which had taken place at the University of Michigan at Ann Arbor had gone broke trying to do this as a service for American industry.

I met with Mary Goode the other day, another superb person in the Department of Commerce, and they are taking—this was totally unbeknownst to me, and I have been tracking that program very carefully just because it was the first bill that I ever got passed and it was symbolically significant—they are taking that thing and they are not only expanding it but they are moving into Indonesia, they are moving it all over Asia. And there was not any direction from Congress or anything. They are just really going at it. That is the kind of spirit I think that John and I are trying to—

Mr. GARTEN. Well, I think it is a tribute. I would want to second your compliment to Mary Goode because there is somebody who arrived knowing that this was a very important thing to do and got right off the mark.

Senator KERRY. I want to thank Senator Rockefeller for his focus again on this. I think he is one of the more knowledgeable trade folks in the Senate, and has spent a lot of time thinking about it, as has his staff.

So, I think that you hopefully will take the double admonitions here, which are meant in the best intention to try to help light some fires under some folks who will understand that there is a growing frustration and a true sense of urgency here.

I think, incidentally, you are doing so much more than anyone has done in the last years, and you deserve credit for that. What is happening is genuine change. And Ron Brown is superb in this effort.

We have the example of the Brazil effort of Raytheon Corp. in Massachusetts—and I am well aware of it because I personally talked to the Secretary of State, the Vice President, and others

about it—I know how engaged the administration was on this effort. And it is a classic example of what it takes in this new marketplace that we are in, where you have got other countries doling out foreign aid in what is called a linked aid fashion, that has a profound effect on people's attitudes.

In some ways, in the Foreign Corrupt Practices Act, which was brought up by Senator Pressler, there is a way in which governments have now engaged openly in a kind of greasing the skids in a very overt and unattractive fashion.

Now, I am not suggesting we ought to engage in it, as you have suggested we should not, but I do know that this is something that the world community is going to have to begin to discuss in some context, under GATT or otherwise, as we create the playing field rules in international trade. Because there is a clear disadvantage to countries who have one standard of behavior, as there is in the environment or other areas.

Increasingly, as we shift into this new paradigm, where the great tension is not over how many missiles you have pointed at each other, but how many business people you have got in each other's countries and what the rules are, it is going to be a whole different form of engagement. It is really going to be intriguing.

Senator ROCKEFELLER. Can I add one thought?

Senator KERRY. Absolutely.

Senator ROCKEFELLER. Because we both have got to rush out. I guess it was this morning or maybe it was yesterday, I read in the paper—and, Jeff, the only reason that we do this is because we want you to do so well, all right.

Mr. GARTEN. I understand.

Senator ROCKEFELLER. It has been such a drought, it has been such a desert on this whole subject. And then you all come in and we want you to be at 100-percent capacity in 2½ days. And we need to be angry at you if you are not, because we want you to do well so much.

Mr. GARTEN. That is fine.

Senator ROCKEFELLER. But it interesting, John, and I am sure you saw it, an article that sort of hinted at the fact that it may be impossible for us to reduce our trade deficit that much because what industry is really concentrating on is not exports but simply producing overseas—that is, American industry—is simply producing. They are going overseas and producing over there. It was kind of pessimistic.

Mr. GARTEN. I think that—this is a very broad subject, but—

Senator KERRY. Well, the Japanese are doing it, too.

Mr. GARTEN. Generally speaking, when we talk about Asia in particular, American firms—the days of being able to export from the United States alone and not be there are over. Those markets are growing too fast. They are too competitive. They are too sophisticated. The U.S. firms have got to be on the spot. And the statistics, for what they are worth, show that these investments are pulling U.S. exports considerably.

So, I do not think that—it is easy to write an article saying firms are going abroad, they are taking jobs with them. The real question is: What would happen if they did not go abroad? Would they be able to service those markets from the United States?

And, generally speaking, the answer is no. Not when the Japanese are there. Not when the French and the Germans are there, making customers, being able to service the products, you know, developing the relationships.

As a matter of our national export strategy, we are focusing on those sales that generate jobs in the United States. That is our major criteria. If we have a choice between firms that just export, where all the jobs are here, and others, we of course would take the first. But that is not the real world now. The real world is that there is going to have to be foreign investment. It is going to be tied to jobs in the United States. We want to make that job intensity as high as we possibly can.

I saw that article and I have seen others, and I think that there is a danger that we oversimplify what business is really like on the ground.

Senator KERRY. Let me ask you this if I may, Mr. Secretary. I would like you to stay because I want to ask you a couple of questions on the framework talks. I also want to ask you a little bit about a couple of larger issues of approach here, if we can get on to a higher plane than some of the micro that we have been dealing with.

So, if you do not mind hanging in, we are going to recess briefly while we go vote, and then we will be right back.

Mr. GARTEN. OK.

[A brief recess was taken.]

Senator KERRY. The hearing will come back to order.

I can tell you had a hearing of your own in our absence. We probably do not have any questions left to ask.

Thank you for your patience. I really appreciate it.

I would like the record to be a little broader, if it could be, than just the areas we have thus far covered. So, let me just ask you a few questions, if I can, quickly.

First of all, on the framework talks, are you satisfied that the framework talks, as currently defined, are the way to produce the best overall results of combining Japanese and U.S. interests for the region? Or do you think that there ought to be a dual-track opening, putting a larger set of interests on the table? Or do you think there should be one track with the framework talks, perhaps expanded into a larger set of interests—partnership interests in the region particularly?

Mr. GARTEN. I think it is a very good question. I would say this, that the framework talks are already quite broad. It is quite a broad bilateral agenda. Because it includes the economic stimulus, the deregulation, four or five sectors, and a series of cooperative programs that go beyond bilateral—for example, cooperation in the environment, cooperation in population.

And the spirit of these framework talks is that we can add additional issues. When it comes to interacting with Japan and the rest of Asia, this is a question I think that we have to be both imaginative but pretty hardnosed. There are lots of areas where we will have to cooperate with Japan.

But in the areas that we have been talking about so far, I think the first order of business is for us to get our own export strategy working. We have some great advantages, all the things we have

said notwithstanding. We have terrific technology. I believe American firms are now committed to exports and they recognize more than the Government does the promise of Asia.

The firms that I have been dealing with in places like China and Indonesia are being praised by those governments for their willingness to train local people for the standards that they have been upholding in areas like safety and health care. So, we have a lot to build on, and I would not want to dilute it too much with some fuzzy notion of cooperation.

Now, there are some areas—Japan is a major power in Asia, and we should have a cooperative agenda in areas like the environment, but my feeling is our highest priority has to be to penetrate these markets on our own.

Senator KERRY. Given that reality and measuring the fact that since 1985 Japanese companies have increasingly been moving fairly significant amounts of production offshore—in part, in response to the increased cost associated with the yen's appreciation—but I think it is fair to say—at least commentators are observing this and I have heard it from business people in the region—that there is something of an integration within the Pacific Rim of other countries and the Japanese economy.

If it is your observation that that is true, what is the impact of that in terms of our strategy and/or interests?

Mr. GARTEN. That is another excellent question. The Japanese have built an infrastructure in Asia which is far more elaborate than anything that we have been able to do and probably will be able to do. For example, they have set up retailing operations—they are setting up retailing operations all over Asia that work with the Japanese distribution system. They are moving industries offshore to export back to Japan through Japanese channels.

Whether or not we can work with Japanese companies in order to take advantage of those same channels, I am not so sure. What we have to do—and this is why I am more focused on our own efforts—our firms, generally speaking, do not set up any infrastructure at all. They do not think in terms of a broader Asian strategy. They work country by country, market by market.

And there is no reason why American firms cannot do very similar things. I think that the Asian governments would welcome that. It is not that they are against the Japanese, it is that they would rather not be dominated by any one particular culture or system.

It is easy to say, Senator, that we should do things with the Japanese, but I think the hard reality is that yes, there are certain areas where we can—and I must say that the Japanese Government has made considerable efforts to draw us in to joint ventures. I am asked all the time, Why do we not cooperate in Indochina? Why do we not cooperate in China?

We should do some of that. But this is a pretty big growing market, and I think there is a lot we can do on our own.

Senator KERRY. Do you see, if you play that out down the road, dangers in that integration and distribution network in that it might begin to create the same kind of monolith-type approach that we are now trying to break down in the context of the framework talks?

Mr. GARTEN. I worry about that. I think, though, that our answer is more American presence, more economic reforms in these countries, faster economic reforms that prevent this kind of cartelization, and more transparency in terms of the procedures, for example in the procurement procedures in these countries.

But I think you are right. I think there is a real challenge here of integrated production and distribution systems from which we will be excluded or which will be very difficult for us to penetrate.

And one of the implications of—I mean, the current Japanese strategy is ever higher levels of investment in Asia. It is partly because of the strong yen, but I think partly because of a great strategic sense that this is where the growth in most of the sectors is going to be.

Let me mention one thing which I should have mentioned before in terms of the export promotion strategy. One of the areas that we have been focusing on a lot is the subject of Japanese development assistance. Japan is almost lending to the rest of the world as much as the World Bank is. We figure that \$10 to \$15 billion a year is coming out of Japan in terms of foreign aid, most of which is technically untied. That is, it is available for everyone.

The fact is, though, that American companies get less than 5 percent of this money. And we have been making a major effort in Tokyo and in these various Asian countries for a better accounting of why that is the case.

It may be that American firms are not trying hard enough. It may be that we do not have the right information to give them.

But the reason I am raising this is it is partly an export promotion opportunity for us, but it is also a tremendous strategic advantage for the Japanese to have this amount of money that is not aimed at social programs but aimed at locking up big infrastructure projects. This is very, very formidable kind of competition. And it only reinforces what you are saying about kind of a Japanese infrastructure with which we have to contend.

Senator KERRY. I think that you are really sounding a very important alarm bell here. I think that this is of enormous significance for us to understand. There are obviously nuances of those relationships that we have traditionally always had trouble understanding for historical/cultural reasons, and mostly based on our own either arrogance or inability to understand them.

I think we are getting better at doing that nowadays, but I think it is very important for us neither to overplay the potential of what you have described, nor to underestimate the potential of what you have described.

And it seems to me that we need to think very carefully about how to—without creating our own set of problems about being overbearing and sort of overleveraged, I guess, we need to augment that presence even more so I would think.

Is there something that you have observed in your trips and as you read and listen to people and really study this, spending full time on it as you are, that sort of leaps out at you that you would say is the message that you want to deliver to us here or to others who are not as sensitive to these nuances? What do we take from this? What ought we to do?

Mr. GARTEN. Well, I think that the Congress has been extremely supportive and out front on these issues, and I hope that remains the case.

I think that we have some very complex set of interests. One of them, for example, is the passage of the Uruguay Round, which I think will contribute to the momentum of a more open trading system. That is crucial for us. We do best when the field is open. And that will go a long way, the passage of that.

I do not think we can divorce trade policy from trade promotion. We need the reduction of barriers that will come with the Uruguay Round implementation.

Second, I think that the congressional—the physical presence of people like yourself in Asia, since we are talking about Asia, is really crucial. In my travels, what I hear a lot is that the European officials are here all the time, the Japanese officials are here all the time, where are the Americans?

And as you know, the Asians consider—I mean, I do not think they would look at French parliamentarians being anywhere near as important as the American Congress because they do have that rudimentary understanding of how our system works. And I think more trade missions, more personal involvements is absolutely crucial.

You know, and I know you know, that this is an area where relationships really matter. They really matter more than most Americans realize, and I think we cannot do too much in terms of travel and advocacy.

The third thing I would mention, which is in addition to what we have been talking about, and this is—let me just say here I am not espousing administration policy because we have not really focused on it. But you know we had at one time the greatest asset when it came to countries like the Asian countries in our Fulbright educational programs. And then at one time we had big aid programs that dealt with village development and that kind of thing.

What is crucially missing in Asia outside of Japan, in my view, is training in the middle. You are looking now at the potential development of a whole region of the world—let us just take an area like telecommunications—where there is a total lack of managerial capability. And the United States has a tremendous amount to offer, not just altruistically.

We have the most advanced educational technology. We have all these information systems, we have all these training programs here, and we ought to find a way to make that available to this massive middle strata in Asia.

Senator KERRY. Would not the centers that I have proposed go a long way toward that?

Mr. GARTEN. That would go a long way to that. I think those kinds of things—

Senator KERRY. Why could we not get more of those up more rapidly?

Mr. GARTEN. I do not know whether it is just a resource question.

Senator KERRY. It seems to me that that would be a wonderful antidote to the sense that the public relations war, it is said by some, was won by the Japanese with respect to the framework

talks where people were made to believe that somehow we were beating down the door to get access for companies that could not win it on their own; that we were trying to advantage less advantaged products or less equal products.

It seems to me if you get these centers in there you are sending a message to Japanese, to Thais, to anybody in the region that we are not looking for an advantage, we are looking for a playing field, equality and access. And that these kinds of centers signal the willingness to compete in that fair atmosphere and not ask for special advantages for some company that cannot win it on its own.

Mr. GARTEN. Well, I am obligated to say of course I totally reject the criticism that people have made about our approach to the framework. But that aside, I think that we have in the Commerce Department, just ourselves, set as an objective to have a commercial center in every one of the 10 big emerging markets.

And I think—you know, we just opened one in Brazil which I would like to think of as the prototype in the commercial center, in San Paulo, on four floors, the latest commercial library imaginable all digitalized, conference rooms, exhibition halls, the entire Foreign Service in there and available, electronically hooked to districts around the United States so that the American businessman either in the States or in Brazil has instant information.

It is a fantastic thing. And it also represents, and I think I am just repeating what you said, a real American commercial commitment. And I think these are crucial. We are going to set one up in Indonesia, as you know. It is going to be open in November hopefully by the President. And we would like to do one in China.

And I think if we could do more of them it would be great, if we had the resources. But without question this would be a net advantage to us.

And I guess I am uncomfortable with the rationale that you mentioned about the framework, so let us just set that aside.

Senator KERRY. Well, I am not adopting it, I am just saying there are those—that has certainly been written about and proffered.

Mr. GARTEN. Here to me is the big issue. Our commercial culture is a great asset. And these commercial centers, if they impart that on the countries in which they are located, is a huge export promotion asset. The rest of the world wants to adapt American-style business techniques. They want to purchase American technology. They like American management. We have got to make it available.

And these commercial centers would do that, and they would also be a real aid, particularly to the small- and medium-sized businesses, as Senator Rockefeller was saying, who travel to these countries and need help. They need a temporary office. They need information. They need introductions to the local officials. We should as a government be able to provide that.

And the problem with what we have now is you have got to go into an Embassy, you have got to pass the Marine guard, you have got to go up three floors, and that is not commercial. And I have been in the business world the last 15 years. I would no more go to a facility like that than I would—it is just not a commercial thing. These centers have to be divorced physically from the Embassy.

So, I am with you 100 percent. I do not know, frankly, the problems in accelerating, but I would like to see one in India, I would like to see one in China, at least one.

Senator KERRY. Well, let us see if we can get some extra money into the budget here on our end to do it, obviously, and hopefully we can work together with OMB to make it happen.

The last question, if I may, on a sort of larger scale also, do you see a danger in the trend, or is it just the natural progression of the marketplace which we witnessed originally in this country between States, in the way in which industry is moving offshore, constantly moving to the lowest common denominator of labor costs and intrusive costs of whatever social structure may exist?

Japan is now moving offshore in significant ways, we are, and other countries. Is this something to worry about in the context of the new marketplace, or is this just—do you folks say, "Hey, this is the way it works" and on we go?

Mr. GARTEN. Well, there are a couple of dimensions to this, one in our country. I think that the programs that the administration has been focusing on in terms of upgrading the workforce, developing higher levels of skills is exactly what we have to do because the fact is a lot of low cost jobs are going to leave. It is not a good thing that they leave, but I think that over time that is what is going to happen, and our comparative advantage ought to be in—

Senator KERRY. But some are not even low cost.

Mr. GARTEN. Well, whatever leaves the point is—I mean, I believe that there is always another level of skilled production, and we have to prepare ourselves for the highest levels.

On the international scene I think it is going to happen. I think already you see businesses moving to Indochina. In my travels I hear a lot about Burma now. A lot of industries are going to continue to move to the low-cost areas.

But what we ought to focus on is, for example, sophisticated information technology which everybody needs; sophisticated medical equipment which everybody needs. In those kinds of areas we do not have to worry about the phenomenon that you talked about.

Senator KERRY. There are other trade oriented issues in terms of the APEC and also the framework and the implementation of GATT. What I would like to do, because we are getting late here, is go to the next panel, leave the record open, and if we could submit any of those in writing I would appreciate it.

I am very grateful to you for your time. I know that you are fighting the jet lag so it is hard, but we are very grateful to you for coming in here and sharing these thoughts with us on this very important topic, and we look forward to working with you.

And I hope you take today in its most constructive and positive light. And we are going to be in touch directly with the Secretary, and with Alice Rivlin, and Leon Panetta, and the President, and Vice President to follow up on the whole question of really getting this into place at the budget level which you do not make the decision on.

So, I wish you well. Thank you.

Mr. GARTEN. Thank you very much.

Senator KERRY. Could I ask the next panel if they would just come right up and take their seats? Mr. Burstein, Mr. Resor, and Mr. Ehrgood.

I might add, the full text of Mr. Garten's testimony will be placed in the record as if read in full. And for each of you who have been very patient, and we appreciate it, we will place your full text in the record as if read. And if you could summarize then we will have a little more time for some give and take here.

#### **STATEMENT OF DANIEL BURSTEIN, SENIOR ADVISOR, THE BLACKSTONE GROUP**

Mr. BURSTEIN. Thank you very much for including my perspective in these discussions. I salute you on your own sense of the urgency about the questions you have addressed here. I am going to run through several observations. I hope I can cover them in about 6 minutes and leave plenty of time for the other panelists and questions.

I want to start off with an observation about how I am looking at opportunity in the Asia-Pacific region. I think the situation is as if we were sitting in Europe in the late 18th century or the early 19th century and looking at the New World.

I think everything that has been said about the dynamism, growth potential, business opportunity in the Asia-Pacific region is absolutely true. If anything, it is underhyped. Anything that calls for a more urgent adaptation of American business participation in that region cannot be too urgent.

Not only is the opportunity great there, but it is going to define in many ways the future of the New World order and the New World marketplace that we talk so much about. It is going to define it in very challenging ways. It is going to challenge some of our own assumptions, as we have been hearing today, about how we ought to do business, what defines an open market, and what the relationship between business and politics ought to be.

There is a Southeast Asian proverb worth recalling at this hearing: You cannot hide an elephant in a rice basket. Some of the discussion today has reflected a certain problem we have with trying to hide an elephant in a rice basket. Our elephant is that we have a fairly deep cultural and political antipathy to the way the political, economic, and social systems in Asia work. I am afraid that we have not brought an end yet to the cold war in Asia. Perhaps in Europe the cold war is over, but not in Asia.

As Senator Kerry pointed out early in his comments, a great deal of our Government's effort toward Asia—the part, the visible part that Asians see—has been directed at moral, ideological, and political criticism of Asian governments. I think this is a huge barrier to the acceptance of our businesspeople and to the desire Asians have to do business with our companies. In the long run, it will feed right into the more negative notions and scenarios that have been presented about the possibility of the Japanese capturing these markets and coming to dominate them.

In particular, I think my comments are apropos of China. Granted, China is not very democratic. But the fact is that China today is more democratic than it has been in 5,000 years. I believe that China today is realizing the promise that businesspeople have

talked about for 200 years, of becoming a true market society, of finally tapping the great dynamism of the Chinese entrepreneur.

China will evolve as a very different kind of market society than anything else we have known. It is going to continue to be an authoritarian if not totalitarian state for a long time to come, and we need a policy that recognizes that reality, that if we want to be in the China market, we need a President who goes to China occasionally and presses some flesh there, and does not just criticize their human rights policies.

If we take a business first position; if we take an "it's the Asian economy, stupid" premise, which I would advocate we take, and we abandon what I am seeing as a sort of latter day moral imperialism toward Asia; if we clear all that from the discussion, will we be selling out our own ideals? Will we be abandoning important moral and political principles? My answer to that is "No." Our ideals and principles have worked very well for us. But, I think we have to understand that we do not have the answers for the Chinese. We do not know how to manage the transition from the world's most convoluted state-planned economy to a free market.

When we talk to the Singaporeans about their criminal justice system, we should not be so sure that we have the better answer, especially when we compare crime in our cities and in our society with their record in Singapore.

In short, I think clearing the air of some of these precepts that we go into the battle with would go a long way toward promoting our business interests in the region.

I think this perspective extends to the economic issues, and the way we are pursuing them, particularly vis-a-vis Japan. I spend a lot of time in Japan, and a lot of time with Japanese businesspeople, and researching the Japanese economy, and I want to just share a few specific ideas.

One: I do not think we are going to get much out of the framework talks. I think we will be very, very disappointed with the net product. The trade deficit is structural, and largely reflects our lack of competitiveness in a couple of key large manufacturing sectors—automobiles, auto parts, consumer electronics in particular. It will never be solved until and unless we make a decision in this country to refocus on manufacturing, and I do not think we are going to make that decision.

Two: The Japanese perceive us as very weak. We talk about how weak their political system is at the moment. But they perceive us as very weak, and not a credible threat. They look at our vacillations on Bosnia and such, and wonder what the credible threat of the American big stick really is. They look at how, when we started to get tough in February of this year, we found that getting tough had very negative consequences on our own financial markets, and we backed down pretty quickly.

Three: I also think that what is perceived as the easier way to go at it, the silent way to go at it—that is, driving the yen up and bashing our own dollar—is, at this point, a very negative game as well. It will not induce change in Japan. The Japanese will continue to adjust, and adjust, and adjust, and cope with the strong yen. They will cry and complain all the way to the Bank of Japan, and in the end they will find a way to produce effectively, including

driving them offshore into Asia, and driving them into a more dominant position in Asia. Meanwhile, our ever lower dollar makes it harder for our businesses—especially small business—to invest abroad, and deludes us about how competitive our domestic manufacturing is.

Four: We need carrots, not just sticks. Our sticks are not very credible, and we do not use them effectively. Many of the instruments are too blunt to be wielded effectively. In addition to our sticks, we need positive reasons why the Japanese and others ought to make concessions to us.

I think we have had a lot of good discussion today that I support entirely, with regard to increasing our presence in the region. Let me say, Senator Kerry, I support your notion of the usefulness of these commercial centers.

I think it is a travesty that we, who spent so much on this cold war in order to make the world safe for capitalism, cannot find small sums to promote the interests of our businesses, especially when we see such massive government support from our competitors. But I think that is all part of a larger agenda. Commercial centers, valuable as they may be, are only one very small, practical step to evolve and bring into the 21st century the relationship between business and Government. This relationship must undergo some significant change if we are to capture a significant share of these new markets.

APEC is a positive initiative. It is heading in a direction that I have written and spoken about, and I understand, Senator Kerry, that you have taken some interest in my writings on building a trans-Pacific community on the order of the European Community, with the United States as a very vibrant participant, and not as peripheral player.

But to return to my central message: To get into that process, we are going to have to stop carrying on an agenda that starts with the political, moral, and ideological questions, and move to an agenda that starts with the economic and business questions, where we have great commonality with our friends and partners in Asia.

A couple of final thoughts. One is, we make much of our advantage over the Japanese in that basically people in Asia do not like the Japanese much, and if given a choice today, if you talk to people in China, if you talk to people in Vietnam, if you talk to people in Thailand—they would all prefer to do business with Americans if the American companies were offering the same terms and conditions.

I think that advantage will last us about another 15 to 20 years. The Japanese are becoming very institutionalized in Asia. Memories of the war are fading, and if the Japanese are the parties who bring in investment capital and new technology, the rest of Asia will work with them.

Finally, I want to make one last, perhaps off-the-point point, but I think it has been alluded to a little bit today. Jeff Garten said something about antitrust, and also about how the Commerce Department initiatives are focusing on the information highway, and information infrastructure.

We need to remember, as our Senators debate cable and telephone regulation and such, that we are sitting atop this enormous asset of being the world's leader in the industries that will create the new industrial revolution. We are now the unquestioned leaders in the industries that everybody in every country wants a piece of. Our companies are sitting back where General Motors was 40 or 50 years ago in terms of dominance.

We have to be very careful, when we start looking into the anti-trust issues involved with Microsoft, or when we start rolling back cable rates to protect American consumers. We cannot separate those questions from the larger issues of how will this play in world markets, what will this do to the competitiveness of our great national resource companies as they go out into the world markets to compete? That is a dimension that is not always heard sufficiently when debates get focused on highly political issues that relate to votes in districts in this country.

I am going to stop there. I know we have got a big agenda to cover. I have a lot more to say, but I will respond to questions.

Senator KERRY. Thank you, Mr. Burstein. Those are provocative thoughts. We will follow up on them.

Mr. Resor, thank you for being here. We are delighted to welcome a Massachusetts-based technology company here, MRS, and Mr. Ehrgood, we are also delighted to have you here from Digital. Why do you not lead off, Mr. Resor?

#### **STATEMENT OF GRIFFITH I. RESOR III, MEMBER, AMERICAN ELECTRONIC ASSOCIATION**

Mr. RESOR. Thanks for including us, John. The AEA, as you know, represents 3,000 high-technology electronics companies across the country—70 percent of these are small companies like my own, under \$50 million sales, under 250 employees.

My company has 100 employees in Chelmsford, MA, exporting display manufacturing equipment to most of these Asian countries, in particular Japan, Korea, and Taiwan.

Tom Ehrgood from DEC, sitting next to me, is representing the other 30 percent of the AEA, the large companies, and I will let him speak for that point of view.

I came down here today mainly to share my experience with what you are calling the technology centers, and more specifically the fact that when we set up business in Japan in 1988, there was no such center, and I will come to several examples, including my own, in just a minute.

I think the most important point that I want to get across for the AEA is that our position is that we recommend you still pursue the policy of opening markets and creating market access, and to be quantitative about that, and to make sure that the enforcing mechanisms are adequately funded to monitor our multilateral and bilateral relationships. More detail on that is in my written testimony.

A couple of examples that the staff at the AEA have put together for you in the detailed testimony I just want to highlight. The EC, being a collection of nations, has established a trade mission in Japan with an ambassador-level person running it. This gives them the advantage of being able to have a tough cop-good cop relation-

ship, where we operate entirely through Embassies and State, as Under Secretary Garten said. It compromises the positions we can take.

I am not sure we can copy what the EC has done, because we are a collection of States, not nations, but they have 83 people there, an \$8 million budget, and more particularly, they have a large public relations group made up of locals.

One of my experiences in Japan is there is a strong bias against American goods. Sometimes we refer to ourselves as the barbarians from Chelmsford. There is just a strong bias in some market segments, and it does need to be fought. In industry we would call it image advertising, as opposed to sector- or company-specific.

We definitely need to rebuild the image of Americans as in for the long haul, caring about Asian relationships, caring about business, and committed to serving Asian customers, and certainly what the EC is doing could be copied. It is generally not thought of as part of the government role, but it is not something industry can do. It needs to be across industry and sectors.

Germany has set up something much closer to what you are supporting. They have industry centers set up for small companies, including manufacturing space. It is my understanding they have left out demonstration space. And maybe I should move quickly to my own experience. Again, I put this in the record. I will not go through all the details.

We started our company with six people. One of the six was deliberately a Japanese national. Most of my market at the time was in Japan, and my two major competitors, which are Nikon and Canon, which are household words around the world, are also Japanese. So, it was very critical to my company to have an aggressive Japanese strategy. And as I said, we are now moving into Korea and Taiwan.

We were faced with several specifics that I think support your view that the Government could help by setting up an incubator trade-center-type facility. When we went to rent office space we had to put up 12 to 18 months cash deposit. For a startup company, venture financed, that is a lot of money. Rents are about 10 times in Tokyo what they are in Boston, and Boston is not cheap. So, for us that ended up \$120,000 cash deposit. There is no interest accruing on that. Much to my surprise, having made the deposit, our prospective landlord still wanted a local credit guarantee, 12 months of cash was not enough. In the Boston area you would probably put up 1 month, if that.

Much of the space we rented could be shared, as you have already observed. Conference rooms, tea and coffee preparation areas, rest rooms, reception areas, a lot of office equipment. Another area that would have been very helpful would be having someone who could help us find professional help: accountants, tax experts, package experts, business and legal advice, and how to set up, what form of business is the most appropriate for what we are trying to do, and patents.

Again, do not think the center needs to have an attorney, but to already have screened professionals and know people who are willing to work with foreigners. Some firms just plain are not real willing to work with foreigners. Some do not have the language skills.

Another type of effort is in the terms of financial services. Everything in Japan is pretty much done on a cash basis. It literally means running around Tokyo 1 day a month paying your bills in cash. If we wanted to make travel arrangements we had to run over to the travel agency. There was no way to make it by electronic wires in this country. I think some of that is changing and there are more direct transfer payments, but again, those are all services that are hard to figure out how to set up and I am sure a trade center as you suggest could help people do that a lot more efficiently than we did it.

So, I would tell you that is my experience in Tokyo. There are many things that could be shared that would help small- and medium-sized companies get off the ground quicker and we could focus on sizing up our competition, selling our technology. But in my case it took almost a year to put all these business relationships in place.

Senator KERRY. Thank you very much. That is helpful. Mr. Ehrgood?

**STATEMENT OF TOM EHRCOOD, INTERNATIONAL TRADE  
COUNSEL, DIGITAL EQUIPMENT CORP.**

Mr. EHRCOOD. Mr. Chairman, I am honored to appear before you today as Digital's international trade counsel on behalf of the American Electronics Association to offer views on the subject of today's hearing.

Digital has for decades been a technology leader in the U.S. computer industry. Today, we are a technology leader in the area of network and platforms and applications for the kind of complex computing environment that exists today. I am happy to say that this leadership in the U.S. computer industry has long meant and continues to mean that we are leaders in the global computer industry. And this, of course, has implications for our ability to take advantage of commercial opportunities in Asia, as I will discuss in this testimony.

We are headquartered in Massachusetts. We have operations in 100 countries. We earn over 60 percent of our revenue outside the United States and approximately 15 percent of our revenue in Asia.

You have heard from Mr. Resor an excellent statement on the question of participation in the Pacific Rim from the standpoint of small- and medium-sized companies. Given Digital's scope and our size, our perspective is obviously a little bit different; however, many of our subsidiaries, smaller subsidiaries, in countries in the Pacific Rim, have similar interests and are in similar circumstances to those of SME's. And also, many small- and medium-sized American companies are critical suppliers and critical customers. Therefore, we share and promote their interests. In my written testimony, I note that Digital made a very substantial contribution to an AEA handbook that was designed to facilitate the entry of small software companies into Japan. This has been very successful.

The exciting thing in Asia is growth. This seems obvious but it would seem surprising in light of the way we thought a couple of years ago of Asia as a competitive threat. Now, we think of Asia as commercial opportunity. I think that Secretary Garten is right

to claim a good deal of credit for the Clinton administration in making this emphasis. I also think that accelerating growth in Asia also has—

Senator KERRY. Accelerating what?

Mr. EHRCOOD [continuing]. That accelerating growth in the Asian economy has a lot to do with it. AEA forecasts 16-percent growth in Asia overall, excluding Japan. Even if that is exaggerated by a factor of 2, that is huge, and accounts for the attractiveness of Asia to American businesses.

In the United States and Europe, we find ourselves fighting ferociously for a pie that is essentially stagnant. And, by the way, I would like to say that this ferocious fighting that we are doing that has real, concrete, implications for the intensity of the fighting is what really assures our continuing leadership. Those of us who will survive will continue to be the global leaders in this industry. But this look does not obscure the appeal and excitement of doing business in Asia, where the pie is expanding dramatically.

In China, for example, Digital estimates for our business planning purposes that the information technology sector is growing at a rate of 25 percent. Today, we are competing in a \$2 billion market. We believe in 18 months we will be competing in a \$3 billion market.

China is not the only fast-growth market in Asia. Taking the ASEAN countries together, they are the fourth largest U.S. trading partner. ASEAN imports from the United States in 1993 are estimated at \$27 billion, three times Chinese imports from the United States.

Japan remains a place of opportunity, and often we tend not to think of it that way because we focus on slow growth and barriers to entry. But as the second-largest economy in the world, even slow growth offers significant opportunities, and the growth is not slow in every sector. In the electronic sector, growth is fairly high.

There is broad, big promise for our industry in deregulation that is coming, helped along by the U.S. Government but driven by the need perceived by the Japanese themselves to deregulate their economy to be globally competitive. Also, we see major opportunities in the liberalization of the public sector market.

Digital has been in Asia for a long time. We continue to be in Asia. The commercial opportunities are real for us. As I mentioned, Asian revenues account for just under 15 percent of our revenues, and they are growing very strongly and they will continue to climb substantially. Last year, Digital relocated our Asian headquarters to Singapore because we realized that our headquarters people needed to be in the same time zone with the line managers.

We have subsidiaries or joint ventures in 15 countries in the Pacific Rim. As an illustration of the importance that we attach to the Asian market, Bob Palmer, our CEO, last month traveled to Tokyo and Beijing. This reflected the corporate priority to deepen key collaborations and key customer relationships with Japanese and Chinese customers. In China, Bob Palmer met with President Jiang Zemin and six ministers in 2 days. We were invited to participate in the huge information technology infrastructure projects that the Chinese are driving, and we are acting quickly to take advantage.

There are no barriers here, it is a question of Digital taking advantage of the opportunity.

We forecast strong double-digit growth in Japan. There is already some very strong demand for our Alpha-based workstations and client servers and other complex computer systems that we designed in Massachusetts that are driven by microprocessors manufactured in Hudson, MA.

So, our story is really a success story. And by that, I do not mean at all to suggest that the kind of picture of difficulty for U.S. firms to enter the Asian market is not a true one. I think in our sector we are relatively privileged by the strong global leadership position that we have had for many years. But I would offer a few suggestions to you in terms of the public-private partnerships to drive home the broad opportunity that the United States has in Asia.

First, I would suggest the first thing to do is to minimize U.S. trade barriers. The first barrier that we U.S. companies face is at our own doorstep in the export control system. Digital and AEA applaud very loudly the substantial liberalization in export controls that took place last year. But there are a number of further steps that have to take place in order to make sure that controls continue to be liberalized in pace with the technology change, that we avoid unnecessary unilateral controls, and that we streamline our decisionmaking process. The Senate will have an opportunity to act on these principles when the Export Administration Act comes on the floor shortly.

Second, we should minimize unnecessary disruptions. There remains a tendency to threaten trade disruption as leverage to promote nontrade objectives, of the type that Dan Burstein was mentioning. The United States needs to work with our Asian trading partners, not against them. We should respect their understanding of their needs before we seek to force our views upon them. That does not mean we do not promote our views, but we should understand their views before we seek to enforce our views.

We should persist in seeking open markets. First, as Secretary Garten suggested, we should hammer home the Uruguay Round. Multilateral trade rules are better than any others, because when parties do not conform to agreed rules there are accepted approaches for dealing with the problem. In the case of bilateral and unilateral measures, the U.S. demand is often clear, but the response when the demand is not met is not at all clear.

The national export strategy announced last year is very important. It is somewhat less important in terms of what the commercial attaches and the Embassies can do for larger companies than for smaller companies, but it is nonetheless important. I could cite a number of ways in which, just on the trip that we took to Tokyo and Beijing, the participation of the U.S. Embassy staff was important. Obviously, the key to the strategy, as you discussed, is the degree to which it is really driven home and implemented.

I thank you for your attention. I hope these views are useful to you.

[The prepared statement of Mr. Resor follows:]

## PREPARED STATEMENT OF GRIFFITH RESOR

Mr. Chairman and members of the committee, AEA appreciates the opportunity to testify today on trade opportunities in the Pacific Rim and ways that government and industry can work together to ensure our success.

I am Griffith Resor, President of MRS Technology, a small (100 person) public company in Chelmsford, Massachusetts, competing globally in the flat panel equipment business. Our major competitors are both Japanese and the major market is in Japan. I am here today on behalf of the American Electronics Association, whose membership includes about 3,000 high-technology companies throughout the country. These U.S. companies span the breadth of the electronics industry, from silicon to software to all levels of computers, telecommunications and systems integrators. The giants of the industry such as Digital Equipment Corporation—represented on the panel today—as well as IBM, Motorola, AT&T, Hewlett-Packard, Intel, and Microsoft are AEA members. At the same time, almost 70 percent of the AEA members are small-to-medium size, entrepreneurial companies with less than 250 employees and less than \$50 million in annual sales.

Our industry is the nation's largest manufacturing sector with approximately 2.2 million American workers employed directly in the industry. World-wide sales of U.S. electronics firms now total over \$400 billion per year. Electronic products are pervasive throughout U.S. business and private life. Moreover as the builder for the rest of the economy, the U.S. electronics industry is key to innovation, manufacturing, service and productivity throughout the U.S. and world.

Historically, the promotion of American trade with and investment in Asia has been a secondary function of the U.S. government. The primary focus has been on the security and geopolitical relationships in the region.

The Clinton Administration is to be commended for taking significant steps to elevate the trade and economic aspects of these crucial relationships, most significantly with the APEC Ministerial meetings last Fall and the announcement of a National Export Strategy. The focus on big emerging markets and key growth industry sectors is also a welcomed addition to the strategy.

Almost every major newspaper and national magazine is filled with the phenomenal story of the Asian market and its exploding economic growth. The numbers are dizzying ranging from 8 percent to 25 percent per year. There are key differences in knowing about the opportunity and being positioned to take advantage of it. Your recognition of this Mr. Chairman is why we are here today, to ensure that the U.S. government and U.S. industry are poised to take advantage of the opportunities offered in the Pacific Rim.

There are two areas that I believe will strengthen our ability to capitalize on the opportunities before us. These are market access and cost of doing business.

## GLOBAL MARKET ACCESS

The United States government has consistently led in promoting open markets throughout the world. We have led not only by word but by action and example, in areas like NAFTA and the Uruguay Round. Trade barriers and structural impediments in foreign markets are destructive to the global economy. By providing its domestic industry a sheltered home market, a foreign government effectively closes opportunities for U.S. workers and companies, limits uses of our technology and severely hinders U.S. and global economic growth.

Because of this, United States leadership is critical to ensure full and effective market access as we position ourselves to take advantage of the opportunities in Asia. Just as we have developed and followed principles of open, competitive markets in multilateral talks, the U.S. must maintain the following principles throughout Asia. In fact, the U.S. government must redouble its efforts to ensure open market principles and treatment for information technology by closely monitoring existing bilateral and multilateral agreements and negotiate additional accords where necessary, such as under the U.S.-Japan Framework. Partnership with industry in identifying real or potential trouble is critical. We must seek reciprocal access in markets we seek to enter.

U.S. leadership in the information industry can be best maintained and enhanced by ensuring that as other countries' products and services enter our market, U.S. technology and services have equivalent access. Without full and effective market access in all countries, the opportunities of a global information infrastructure are severely minimized and our competitiveness is compromised. The United States must advocate full and effective market access and accept no less. Open markets have been the stronghold of this Administration's trade policy. This principle includes open and transparent systems for standards setting, procurement procedures and open competition as well as effective intellectual property.

## COST: THE HURDLE TO ENTERING THE MARKET

Generally, the first hurdle most small-to-mid-sized companies must clear is not a trade barrier but the sky-high costs of doing business in a market like Japan. When you combine the costs with the widely held belief that Japan's market is closed, which is the second hurdle, most companies are reluctant participants. In fact, these two issues combined are often enough to totally drive away smaller potential American exporters, since their companies are not large enough to afford the significant investment without some hope for business. Still, even multinationals have great difficulty rationalizing the costs of setting up and maintaining operations in the Japanese market. This is primarily because, regardless of size, it takes years to break even in Japan and nearly a decade to reach average worldwide profitability.

The Japanese market requires extraordinary investment in researching the market, developing a public relations strategy, monitoring competition, recruiting top talent and taking advantage of opportunities to localize production and research. While all of these actions are required when entering any market, a U.S. company evaluating the opportunities versus the costs may look elsewhere if it cannot readily assess the market opportunities in the market. Even those U.S. companies with staff dedicated to exploiting foreign market opportunities regardless of short term financial reward may not understand that a market exists for them in Japan until it is too late. To accurately evaluate the market requires someone in-country, fluent in Japanese and knowledgeable about the inter-relationships in business and government budgeting. A study might cost as much as \$150,000. At this cost, most small companies find it prohibitive. While a trade association may be able to commission such a study, it is often sector specific and a one-time analysis.

American industry's need for accurate and timely information about the Japanese market is demonstrated by AEA's experiences. AEA has had over 9600 users since it began keeping monthly records, with a peak of 609 new users in a single month. Currently, there are 474 U.S. electronics companies with a presence in Japan. It is a competitive industry that is committed to the market. As demonstrated by the use of AEA's office, when there is appropriate resources, U.S. industry can prevail in the toughest markets.

## A POSSIBLE SOLUTION: THE EC TRADE CENTER

As we look at ways to implement the national export strategy, we may want to evaluate some of the European efforts in Japan that may serve as a model. The European Economic Community has a mission in Japan that occupies its own building and is headed by an Ambassador level official, who serves in addition to the Ambassadors of the various EC member states. The staff of the EC Mission is comprised of approximately 83 people and is supported by an annual budget of around \$8 million. Because the mission is devoted solely to promoting trade, it is able to engage in a variety of activities which an embassy, charged with maintaining diplomatic and political relations might find difficult or impossible to do. This division of functions has allowed the Dutch Head of the EC Delegation in Japan, for example, to lead an acrimonious, but successful battle to reduce hurdles to the import of tulip bulbs into Japan, leaving the Ambassador of the Netherlands free to either support the effort or devote his time to other issues.

The U.S. Ambassador has no option to play "good cop/bad cop". As America's only senior representative in Japan, in January 1992 the American Ambassador had to urge Japan to buy more American auto products, and to honor an agreement to buy American computers, (which the Japanese government views as a threat to Japanese computers), while at the same time dunning Japan for billions of dollars to pay to a supercollider and asking Japan to support a "global partnership" with the United States.

The EC Mission's public relations section, which employs many former Japanese newspapermen and editors, is tireless in its efforts to present Europe's position to the Japanese media. The EC also has a massive advertising budget that allows it to place special sections in major business magazines highlighting European craftsmanship and traditional style. The EC Mission also sponsors programs to monitor Japanese patents and technology and to place young EC businessmen and women in Japanese language business situations. This allows European companies to take advantage of the market and an aggressive EC Mission has seized for its own use the fruits of the Semiconductor Agreement, the 511 Talks and every major U.S.-Japan trade initiative. The U.S. can and should do what the EC does in Japan and more.

The German Trade and Industry Center is another example of a focused government industry effort. This project differs from the EC Trade Mission in that it

serves as an incubator and flexible manufacturing facility for German and other foreign companies. The German Trade and Industry Center is an enterprise that is subsidized by the Japan Development Bank and the Deutsche Bank and was established to provide lower cost office and meeting spans and limited flexible manufacturing facilities for small-to-mid-size companies to encourage their entry into the Japanese market.

#### THE MRS TECHNOLOGY EXPERIENCE: THE NEED FOR A U.S. EQUIVALENT

In February 1987, MRS established its own Sales office in Tokyo, and has maintained a direct presence in Tokyo since that time. One of our six founders is Masaharu Miki, a Japanese national. Mr. Miki has led our efforts in Japan, making all the arrangements for offices, staff, accounting and legal assistance, and business advice. This was a major effort even for Mr. Miki; significant resources were used each year (roughly \$500,000) to setup and maintain our presence in Japan.

In September 1987 MRS partnered with DaiNippon Screen for sales and service in Japan. For three years, MRS used DaiNippon Screen office space in Tokyo. Today, MRS has shifted this relationship towards direct MRS sales in Japan, with our partner providing sales staff and service. MRS currently has a small Tokyo office with two full-time employees.

During this period much of what we did was "reinventing the wheel". Much could have been shared with others in an incubator environment, resulting in significant time and costs savings. If I could just cite a few examples of what it takes to set-up and maintain an office, before you can even begin to worry about the market changes and technological developments. The list includes:

- 12 months rent was required (\$120,000). Some landlords get 18 months. Even to do this, we had to find a local citizen to support our creditworthiness.
- Our space included office machine space, conference room, restrooms, coffee and tea preparation areas, and reception areas, all of which could be shared with others, if there were an incubator set-up or option.
- Finding our own accountant, and arrange for a local audit. We also had to find our own patent attorney. In both instances, the search costs could be shared or not least the search could have been narrowed to pre-screened folks if there were a place that provided that service.
- Payments are made in cash at the end of each month. Our receptionists ran around Tokyo doing this. Again, a cost that could be shared.
- Travel had to be done through a travel agency; we had to pick up our own tickets and pay in cash. Any changes had to be done the same way. An in-house or shared travel group would be useful.
- Banking has to be local, at least until Japan goes to more computerized payment methods, locating in a bank building would be wise.
- Finding our own ex-pat tax expert. We finally located such a person in Tokyo (all the experts seem to be there, not here).
- Finding an expert on ex-pat compensation who could teach us how to set up overseas compensation and maintain the cost of living adjustment factors for us. We found this expert in Cambridge, Mass.
- Finally, finding Japanese cultural training for U.S. employees, and sales training for Japanese employees. We found this in Tokyo.

Remember, we had a Japanese national and it still took a year to set-up the office. can imagine how hard it would be to do this without a Japanese national on your startup team. An incubator manager or senior U.S. business advisor, in a facility focused on new-to-market companies would be a help to any start-up, regardless of size, but could be critical to a small company.

In conclusion, the establishment of a professionally staffed, well-funded American Trade Center in Japan could be a key part of a new approach to guaranteeing U.S. economic and technological security with Japan well into the 21st Century. This center will complement the efforts of trade negotiators by ensuring implementation of agreements, providing U.S. companies with timely market and technological information and providing necessary support for new-to-market exporters.

Thank you Mr. Chairman. I'll be glad to answer questions.

Senator KERRY. Well, your statements are all helpful, and I appreciate very much your taking your time. You folks are the front-line troops here, and you have as good a sense as anybody about what you are meeting out there and what is happening.

Let me come back, if I may, and sort of dance around a little bit, but I want to go back to you, Mr. Burstein, if I can. You talk about

the carrots. You said we have got to hold out carrots as well as sticks. What are the carrots you are talking about?

Mr. BURSTEIN. One type of carrot, I believe, if we are interested in promoting a manufacturing renaissance in this country and continuing to have people employed in this country in high-value-added manufacturing jobs, we ought to look at trying to minimize the trade imbalance with Japan by encouraging Japanese investment in this country rather than discouraging it. We ought to make it easy for the Japanese to invest here in manufacturing industries where they will hire American workers, rather than to have a situation where that is seen as antagonistic to our interests. We ought to encourage that trend, to set goals in that direction.

Senator KERRY. What barriers are you referring to now, with respect to that?

Mr. BURSTEIN. It is a climate, it is not a specific barrier, but as you know the Japanese have essentially ceased new investment in this country.

Senator KERRY. Did not that have a lot to do with their own squeeze?

Mr. BURSTEIN. Sure. But at the same time, every time they come to this country to make a major investment there tends to be a hue and cry about it politically in the media and so forth. That, coupled with their own squeeze and coupled with more attractive opportunities in Asia, are leading them to disinvest in this country and invest elsewhere.

I would be for encouraging them and saying to them, "You do what you want about importing American auto parts over there in Japan, if you come here and hire x thousand American workers and really create some American jobs."

Senator KERRY. Does it matter what they are producing?

Mr. BURSTEIN. I think there is pretty good evidence that most of the production here of the Japanese companies is pretty—

Senator KERRY. But right now the market is pretty free and open with that regard. It is really a choice they are making based on mostly economic decisions; is it not?

Mr. BURSTEIN. Well, there have been quite a few highly politicized and publicized cases of negative atmosphere being created about Japanese participation in our economy. And I am just suggesting that that is one avenue that we could go down where overt encouragement—

Senator KERRY. You talked about the Japanese making concessions. We have to find the reasons they would want to make the concessions. What reasons would you offer us that they might want to make concessions?

Mr. BURSTEIN. I would try to shift the agenda. I know Jeff Garten was dubious about such issues as collaboration and co-operation in Asia.

But I would think that that would be one area where there would be considerable Japanese interest. In fact, as Jeff indicated, he has had approaches from the Japanese Government about cooperative activities in Asia. And that is something where I think we could say, "Well, if we could get some progress on X we could do Y together." And I think that kind of quid pro quo is very, very intelligible to the Japanese. The chairman of my firm, Pete Peterson,

has often talked about arranging a situation where a prominent Japanese becomes the head of the World Bank or the IMF and where Japan gets a seat on the U.N. Security Council. We need those kinds of carrots.

Again, the problem is we are just threatening them. If they do not do what we want we are going to do super 301 or we are going to have this finding or that finding.

Senator KERRY. But that frustration is born out of years and years of being diddled, too.

Mr. BURSTEIN. Of course. The frustration is understandable. My viewpoint on that is only to say that despite the new tough talk, and despite what appears to be a new, strong commitment in this city to do something about the problem, I will almost guarantee you that you can have me back here in 6 months and we will not have any substantive change through the process we are now using.

Senator KERRY. So, therefore, what ought the focus be?

Mr. BURSTEIN. Therefore the focus ought to be on progress where we can get it. I like the idea, for example, on the financial services debate, of getting access to certain kinds of financial services in Japan. We have financial services to offer the Japanese which are not now in the marketplace in Japan. So, it is not a question of having to take market share from a Japanese company.

For example, various kinds of portfolio insurance, various kinds of derivatives products which American companies would like to offer to Japanese financial institutions, are not being offered competitively now by the Japanese. That is just an example to show that there are ways of adding to the market rather than taking away somebody else's share that should make it easier if we were to concentrate in those areas.

I think the information infrastructure, and cable television, and a whole bunch of areas along those lines are also very promising. They are things that do not exist in Japan in the way that they exist here. We should be fighting the battles for the new markets and not the old ones.

Just to second your view on the agricultural issue, which became such a heated point of discussion earlier today, I am strongly in favor of focusing all of our efforts on the new, winnable, and job-creating markets. I think we have seen, incidentally, that in the last year, with bad harvests in Japan, they have suddenly come to see and appreciate the importance of American rice. This has nothing to do with our export promotion expenditures; this has to do with their needs. And when driven to action they will take action. Until then, all of our threatening does not seem to change the picture.

Senator KERRY. So, your suggestion is that it is so much a matter of self-interest that we are basically beating our heads against the wall, and we ought to be focusing more of that energy on other market availability, is that correct?

Mr. BURSTEIN. Yes, and on creating new interests.

Senator KERRY. Even in the best of circumstances, Japan represents a smaller amount of growth potential.

Mr. BURSTEIN. I think that, yes.

Senator KERRY. Do you gentlemen agree with that?

Mr. RESOR. I do not agree completely. I think it is a good point. Certainly it is easier to win new markets than to take share in old markets, but I also do not agree that the United States is across-the-board not competitive in some consumer electronics sectors. And it is pretty well documented in mobile communications that the U.S. suppliers are competitive in world markets but have very small share in Japan.

And the measure that interests me the most is how are our industries doing in Japan compared to other nations, third markets. It seems to me that we should expect and look for open markets that at least come close to matching the percents that our businesses are able to capture in other third markets.

And I think we do not—I guess the real reason that I do not agree is if we cede certain markets the Japanese or other competitors, I do not mean to just concentrate on Japan, can build capabilities and positions in critical industries. We cannot allow beachheads to go uncontested.

My particular field is displays, and before that semiconductors. And I do not agree that we have this insurmountable lead in the national information structure. I have been a champion of making that an initiative; to have the role of Government be to stimulate a marketplace that drives a private sector in a way that puts us in the lead. But we then are still going to have to fight for markets. I think the pattern is clear. If we do not struggle for markets in critical marketplaces, those are going to taken away from us.

So, I have a much broader view that these are linked issues and linked markets, and it is a mistake to ignore the linkages.

Mr. EHRCOOD. I will try to be brief. I think in many sectors we have no choice, we must contest for markets in Japan. I think to an unfortunate degree the Japanese have looked to the U.S. Government to help move them to accommodate more open competition in the manner they wanted to, but did not have the political will to do without the outside pressure.

Necessarily, this has created a history where the United States goes beyond what the Japanese Government always wants, and the key here is to move on this path intelligently and to seek things that we really fairly can ask for.

Senator KERRY. How do you feel about the framework?

Mr. EHRCOOD. Well, the interests of the computer industry are really not directly implicated in the framework. I think the conception behind the framework of tying everything together is an admirable intellectual conception, but I think by tying everything together the Clinton administration has made it more difficult for itself to move any pieces forward.

Senator KERRY. Because?

Mr. EHRCOOD. Because once you have everything linked, then the issue that is the most contentious one is going to be the one that will block progress on the whole package.

Senator KERRY. What would you advise?

Mr. EHRCOOD. Well, I think you are asking me to go a little bit further than I should now—what I have said I have said with the benefit of hindsight.

Senator KERRY. Have you found that the investment barriers have changed at all in Asia, or are they the same?

Mr. EHRCOOD. In Japan, we have had no trouble long ago establishing our 100-percent, wholly owned subsidiary. In investments beyond that, we really have not sought to do it by financial acquisition, and we have not been held back in making those additional investments in collaboration with other Japanese companies.

In China pragmatically, and in a lot of Asia but I will just speak to China, pragmatically we have to move forward with Chinese entities. Again, investment there is not necessarily in the form of financial acquisition, but it is in the form of technology investment. And really the most difficult thing of all is in the form of the investment of people resources in a new business enterprise.

Senator KERRY. Do you accept that the trade center concept would be of help?

Mr. EHRCOOD. Yes, I do.

Senator KERRY. It helps more the small business than your business, or would it be helpful to you, too?

Mr. EHRCOOD. It would be helpful. It would be incrementally helpful to us. It would be more helpful to us in countries like Malaysia, where we have a small, budding subsidiary than in Japan where we have 3,000 people. Therefore, where we have our smaller subsidiaries it is going to be much more important to us in terms of information acquisition.

I do not think that Digital is going to need to rely on the trade incubator to cover lease costs. I think in terms of a more effective U.S. commercial presence with information dissemination—that part is important.

Senator KERRY. Let me hear from all of you quickly before we wrap up, give me in the order of priority the most important steps the Government could take that would make a difference to you now, that you think would make a difference overall?

Mr. BURSTEIN. I would support your initiative. I would expand dramatically on it. I would be in favor of creating, experimentally, perhaps with short-term funding and see if it works, a huge, urgent U.S. support infrastructure for expanding business in Asia.

I would look at what the Japanese have done over the years, going back quite a ways with their JETRO—their export organization—and I would not stop at trade centers. I would look at some of these support facilities that people are talking about. American companies on their own do not have enough market share in Japan to afford to own their own fleet of trucks. Maybe there are ways to help companies get together and buy a shared fleet of trucks.

Senator KERRY. Do you think the Government should involve itself in that, or should chambers of commerce and private sector efforts be doing that?

Mr. BURSTEIN. My personal view is that Government should have a role in that to seed it, to start it, to set it on the agenda, not necessarily to underwrite the financing permanently. But if we want to compete with those competitors we have heard about today we need to have more muscle in that area than we do now.

Senator KERRY. Is that generally accepted within the industry?

Mr. BURSTEIN. I think it is.

Senator KERRY. Well, let me ask Mr. Resor and Mr. Ehrgood.

Mr. RESOR. I was working on your first question, which was what would be the single most important thing that I could see happen, so you may want to—

Senator KERRY. Answer that, go ahead.

Mr. RESOR. OK. I like Secretary Garten's idea of first of all an export policy focusing on the growth markets of the future. I asked in the audience next to me, does that mean sell wheat not rice, which of course as you know has been the Japanese point. I think that is probably the most important step, and certainly I would reinforce that.

I think within that, then, the notion of focused foreign aid strikes me as critical.

Senator KERRY. Tied aid?

Mr. RESOR. Tied aid. I have not researched the politics of that here in Washington. It sounds like something that would take a while to get across.

My sense is that the incubators are what small companies need to break the ice and get into many of these nations. It takes a good bit of research, and we need to encourage people to export now. And that comes in the category of just facilitating what I call parallel processing, to draw an analogy to the computer world.

The power of the free market to me is that we enable and turn on all of the businesses and the entrepreneurs in the country in parallel to go trade or invent PC's or whatever we get them focused on. And incubators have that potential, that you can get a lot of smaller enterprises all working together to penetrate some of the key markets, and they are all quite different.

Senator KERRY. Has not our technology transfer effort and some of the incubator efforts we have already initiated made a difference, or you are not perceiving that?

Mr. RESOR. I guess the ones that have been initiated in Brazil that I heard about today, it is not a market I am familiar with.

Longer range, an idea that I have shared with Pat Windham would be I think as we pull back from the cold war and bring our troops home, it is important to think of other ways to send young people into foreign countries, and bring young people here for training. The Under Secretary touched upon that when he mentioned Fulbright scholarships.

I think that ultimately we trade with the people we know best, and we are successful trading with the countries we know best. And I think one reason that we have been good at trading with Japan and Germany is that we have had a lot of people stationed there since World War II learning those cultures, making contacts, and learning what are the needs of those markets, how do you serve them, how do you approach those markets.

That is not going to be a short-term fix, but I think that we should not lose sight of the long-term need.

Senator KERRY. Is there any observation any of you want to make before we wrap up about Secretary Garten's observations?

Mr. EHRGOOD. I would like to give you my one suggestion, if I may, and that would be for the U.S. Government to keep the export control system current to changes in technology.

Senator KERRY. Well, I am strongly in favor of that and hopefully we are going to get that. But I agree with you, we move so rapidly

and suddenly we are etching ourselves out of the market rather than staying up with it.

Has control liberalization thus far made a difference?

Mr. EHRCOOD. It has made a huge difference. In December 1993, Digital could not sell our Alpha computers in China. From January 1994 to the present we have sold tens of millions of dollars' worth, more than in all the rest of Asia, and it is because of that export control liberalization.

Senator KERRY. Did you hire back any of those 20,000 people?

Mr. EHRCOOD. We are going to hold on to as many as we can.

Senator KERRY. Well, thank you all very much for being here. I know it is late in the afternoon and you have been very patient. I appreciate it. It is very helpful to us.

And as I say if we have any additional questions we will submit them to you in writing.

Thank you. We stand adjourned.

[Whereupon, at 4:55 p.m., the hearing was adjourned.]



## APPENDIX

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### QUESTION ASKED BY SENATOR INOUYE AND ANSWER THERETO BY MR. GARTEN

*Question.* Secretary Garten, the bilateral textile and apparel agreement between the United States and China as signed on January 17, 1994, includes an anticircumvention provision to address the problem of textile fraud, specifically in response to massive illegal transshipment violations by China. What action is being taken by the Department of Commerce to ensure China's compliance with the new agreement? Under category 352, is there a system in place to ensure that textile import quotas are not being filled by illegal transshipments?

*Answer.* The United States, as a precondition for extending any bilateral textile agreement in 1993 and 1994, reached agreement on new anticircumvention language with 24 countries. The anticircumvention language provides for greater cooperation and exchange of information for the prevention of illegally transshipped textile and apparel products; sets strict timetables for the consultation process to ensure cooperation by our trading partners; allows for the charging of illegally transshipped goods to the true country of origin; and, in cases of uncooperative repeat offenders, allows for treble charges.

The United States and China negotiated a bilateral textile agreement in January 1994. As part of the agreement, the United States insisted on tough new anticircumvention language. The United States has had numerous consultations with China on illegal transshipments. In addition, following consultations, the United States has charged China's quotas for illegally transshipped textile and apparel products as provided for under the terms of our bilateral agreement.

Regarding the question on category 352, the United States has the authority, under the terms of our bilateral agreements, the multifiber arrangement, and domestic Federal regulations to charge textile and apparel goods to the true country of origin (i.e., the country where the goods were manufactured). If the U.S. Customs Service is able to determine before goods enter the country that they are being illegally imported, the goods are denied entry and seized. However, it is not always the case that this determination can be made before the goods are allowed entry. Often, information in illegal transshipments is obtained after the goods are entered. The Customs must gather enough evidence to prove the country of origin of the goods. Once country of origin is proved, the United States can proceed to charge the goods to the correct country's quotas. If the illegal entries are discovered in a timely fashion, Customs issues an order for the goods to be returned and takes possession of them, if the importer has not already sold them. In this way, we can prevent some of the illegal entries from using up legitimate quota. If the goods cannot be redelivered to Customs, then fines are imposed on the importer.

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### PREPARED STATEMENT OF SENATOR BURNS

I would like to thank Chairman Kerry for holding this hearing and giving us the opportunity to take a closer look at trade with the Pacific Rim. I appreciate The Honorable Jefferey E. Garten, Under Secretary of Commerce for International Trade, and the other witnesses taking the time to come here today to discuss United States export promotion strategy in Asia.

International trade is a timely subject. We are about to embark on debate on a huge trade agreement with far reaching implications for the 21st century. But with or without GATT our future economic growth is entwined with the rest of the world by trade ties. We are dependent on foreign markets for our economic well-being.

Trade is important for the future of our country and for economic growth around the world. The United States should focus on the Pacific Rim as an opportunity for future trade growth. Japan, China, South Korea, the Philippines, Taiwan—these are the countries where we should focus our attention. When we look at trade, the focus

should be on these countries, growing industrial countries with a bright future and a rising income growth rate.

The Pacific Rim offers real promise of increased trade. As a whole, the economies of the Pacific region are growing more than six times as fast as the 24 leading industrial economies did last year. Overall, 40 percent of U.S. trade is now with Asia. Exports to Asia totalled \$120 billion in 1992. However, the U.S. trade deficit with the Asia-Pacific Rim countries was \$98 billion in 1993.

Montana's economic trade future in particular is fixed on the Pacific Rim region. Trade between Montana and Asia is continuing to grow. Montana's exports to Asia—wheat, beef, softwood, minerals and coal—are increasing. This region provides a lucrative market for Montana's products. Our exporters have put in a great deal of work to penetrate the trade borders, and their work has paid off. Japan purchased \$27 million in goods from Montana in 1992, Taiwan some \$11 million, and South Korea nearly \$7 million. The Pacific Rim offers a great opportunity to Montana for increased trade in the 21st century.

There are ways we can help our exporters by promoting trade, and that is why we have to implement a strategy and stick to it. Direct and indirect trade barriers need to be removed, paving the way for greater access by U.S. exports into these growing markets. But the United States can't give up on these markets. And while there is still plenty of room for improvement, we can't help but be proud of the gains being made by American companies and products in these markets.

We also have to be careful when linking international trade to domestic issues, such as human rights. I believe that the U.S. can have a positive influence in stopping human rights violations through diplomacy, but I don't think trade is the right venue for these efforts. We are only punishing our companies by not extending MFN status to China. Constant threats to revoke MFN are not the most effective use of diplomatic leverage. The international marketplace is a competitive one, and we have to remember that trade is a two-way street. Closing our door to Pacific Rim countries, including China only hurts our exporters in the long run.

This hearing is a good opportunity to focus on trade in the Pacific Rim, and I am pleased that this subcommittee is turning attention on trade in this region. I look forward to even greater trade between the U.S. and the Pacific Rim in the coming years.

LETTER FROM PROF. KENNETH S. COURTIS, DEUTSCHE BANK CAPITAL MARKETS  
(ASIA)

AUGUST 16, 1994.

Senator ERNEST F. HOLLINGS,  
U.S. Senate,  
Washington, DC 20510

DEAR SENATOR HOLLINGS: I am writing to thank you for your gracious letter of July 20 inviting me to testify before Subcommittee on Foreign Commerce and Tourism of the Committee on Commerce, Science, and Transportation. I was honored to receive the invitation and wish to express my gratitude.

Due to unexpected developments, I have been away from the office here for the past three weeks and only returned to Tokyo yesterday when I found your fax awaiting. I am usually in contact with the office several times a day when I am abroad, but this time, it was not possible to do so. I know that you will understand.

I would be very happy to cooperate with you and members of the Committee for any future hearings, that you may hold on what I think is a very important issue area indeed, that is the development of an economic strategy for Pacific Rim.

On the basis of our work, it seems clear that 55 percent to 60 percent of the new wealth to be created by the European Union, NAFTA, and East Asia over the next ten years will be created in Pacific Asia. But it is not only that much of the growth in the world economy, be generated in the region, but East Asia will also generate an additional trillion dollars a year than it does today by the end of the period.

The recycling of this surplus to the world economy is set to emerge as a major area for policy concern.

What we also see in the region, and it is occurring very quickly, is the integration of Japanese capital, management know how, and technology with the market dynamics of continental east Asia and Chinese labor costs. The global competitive implications of that equation will be stunning. That is one of the principal reasons of our work to assist North American and European firms to focus on the strategic necessity of building major market positions in Asia now. Failure to do so will mean that the great increases in volume the Asian growth will generate will be captured

by other competitors. That, in turn, will allow them to slide down the cost curves faster than firms not sufficiently active in the region.

I look forward to discussing these issues and the policy implications with you and members of the Committee should the occasion presented itself in the future. I wish again to express my gratitude to you and send my kindest regards.

Yours sincerely,

KENNETH S. COURTIS.

#### BEFORE THE STORM

Despite rising worldwide interest rates, perhaps it is the stunning summer heat enveloping both Japan and America that has led to the cozy consensus that engulfs Kasumigaseki, Kabutocho, Wall Street and inside the Beltway. By autumn, however, when the air is cooler and minds are sharper, a very different situation will emerge to trouble markets, foreign exchange traders, and trans-Pacific relations. By then it will be clear that today's mid-summer quiet was but the calm before a mighty storm.

In Tokyo, key to the unquestioning consensus is the view that Japan's trade surplus has peaked and from here is set to melt like ice in the summer sun. Also it is widely believed that the economy is at last on the way up. Although interest rates bottomed toward the end of last year, the sharp climb that has occurred in the interval is widely seen as benign, unthreatening, a move to neutrality as policy-makers now anaesthetically describe it.

What was but a few weeks ago an unholy and unnatural alliance of left and right, has become a legitimate marriage, if not of reason, at least of convenience, and put Japan on course for a period of political stability. It does not seem to matter that the government has little vision, other than the determination to be in power. In this context, new ideas have come to be seen as both troubling, and troublesome.

Across the Pacific, Washington and Wall Street alike chatter almost empty headedly about the new fundamentals. The economy is strong and growing, deficits are declining, investment is up, and America is back to work. In this view, neither the dollar's weakness nor inflation's recent strength are justifiable, and so will not last. Interest rates have climbed, but with the next hike imminent, the Fed will also trumpet a new neutrality.

Rather than being cause for concern, the shrinking base of President Clinton is seen as leading not to bitter gridlock, but to bipartisan moderation, to a more balanced, and so, paradoxically, to a stronger Administration.

It must be the unusual heat that is the source of so muddled thinking. Certainly, the forces at work below the quiet surface carry little mystery. Nor do their implications for policy, politics, and markets during the period ahead.

First, against the background of building economic momentum in Europe and Japan, robust growth throughout east Asia, and continuing expansion in North America, the long-term decline of savings rates for all industrialized countries, except for Japan, and the increase of debt levels literally everywhere, mean together that interest rates are set to climb much higher than is yet widely realized.

The process is already well engaged, as countries with the highest levels of foreign debt have experienced the sharpest rise in interest rates this year. Such has been the case even in conditions of continuing deflation as the wrenching experience of Canadian markets over the past six months demonstrates.

As economic momentum builds in Europe and Japan, pressure on interest rates will intensify, especially for high deficit economies. These countries will then face the choice of allowing their currencies to fall, or interest rates to rise. Neither markets nor governments appear prepared for such developments.

With rising world interest rates, global markets are set to become more dependent than ever in the past on funds from Japan, the world's major source of surplus capital. Particularly important will be the smooth recycling of Japan's unprecedented external surpluses. In short, that means that policy decisions made in Tokyo are set to take on an international importance that Japan's political class appears still to ignore and for which it is largely unprepared.

The outlook on the trade front is equally problematic. More than a year of negotiations have produced nothing. The clock is ticking on the end of September deadline for Super 301 and the imposition of sanctions under Chapter 7 of American trade law regarding Tokyo's public sector procurement practices.

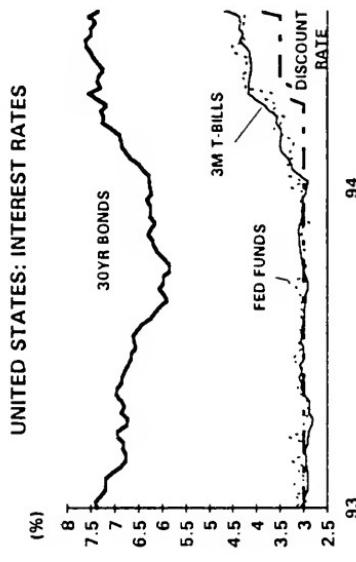
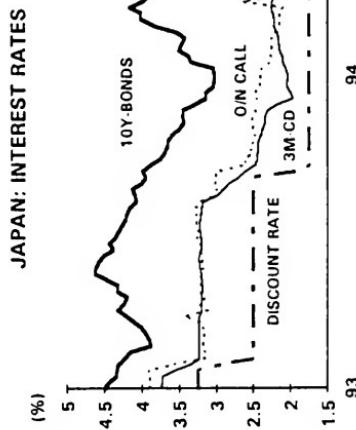
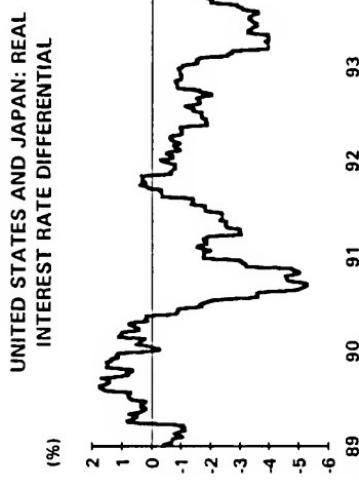
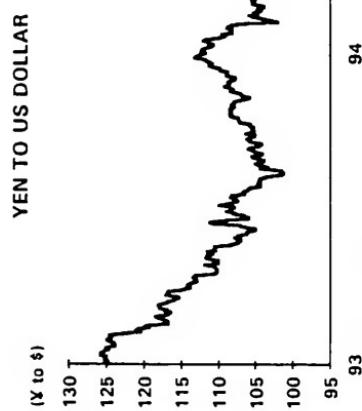
From Washington's perspective, Japan has largely succeeded in talking out the clock, and contributed little to what could serve as a satisfactory basis for agreement. In contrast, Tokyo seems to view the Framework negotiations as a strategy for entrapment. Should Japan accept that "measurable results", in any form, be part

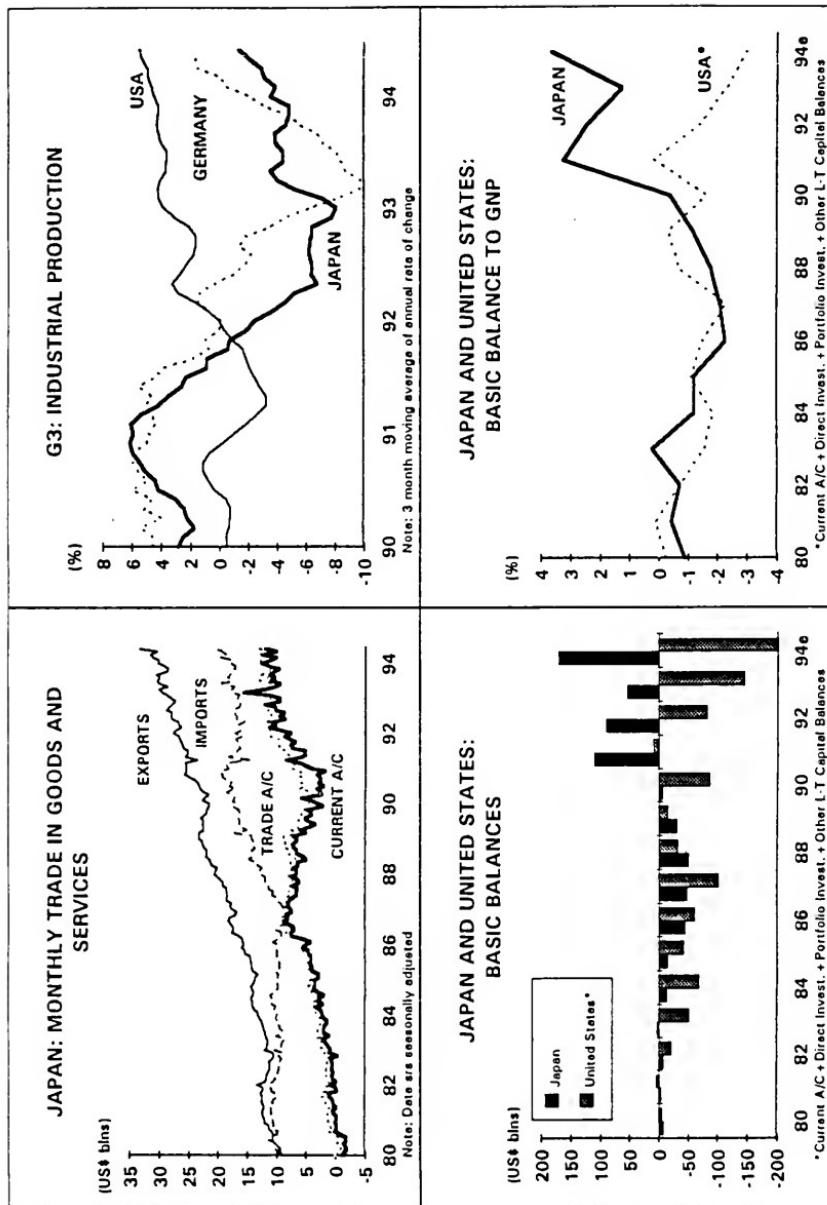
of the final accord, the interpretation of the agreement would be quickly twisted into a generalized commitment by Tokyo on market shares for imports.

With both sides increasingly locked into these positions, and governments in Tokyo and Washington seemingly too weak to change course quickly enough, it is increasingly likely that the end of September will bring a great commercial clash across the Pacific. Markets would then, in their own brutal, to-the-pointedness, instantly interpret this situation to mean that America was left with little option but "to take out of the currency market what it was unable to get at the negotiations table".

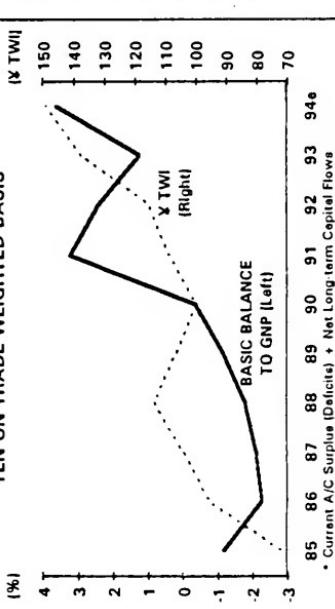
Such developments would gyrate instantly to global financial markets, sending interest rates, currency and equity markets into a tizzy. With international markets already on the defensive, the forces this situation would unleash would create more, much more damage, and faster than is yet widely understood. It is not enough for policy-makers to invoke "the good fundamentals", and expectations that "the economy has bottomed".

Rather what is required is a firm and clear assessment of the situation as it is and a determined exercise of leadership to steer the international economy away from the jagged shoals to which it is now so dangerously close. Tokyo and Washington carry together that responsibility and have the means to steer to a different course. The question that is now set to haunt markets is whether they have the will and the vision to do so.

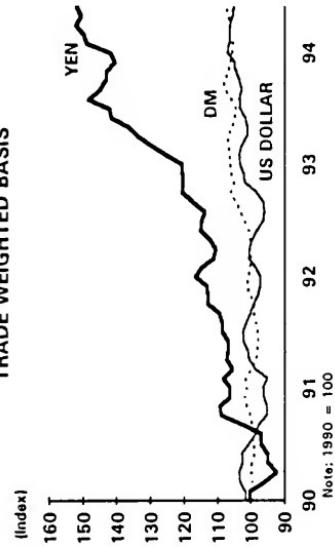




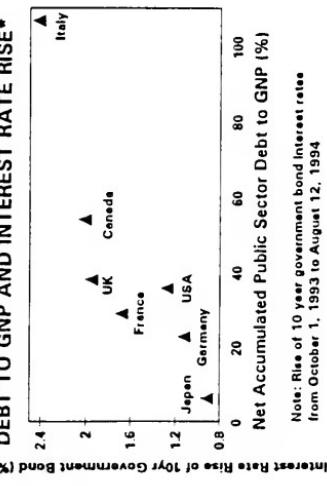
JAPAN: BASIC BALANCE\* TO GNP AND  
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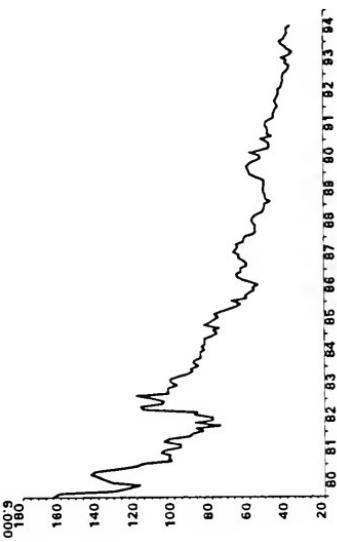
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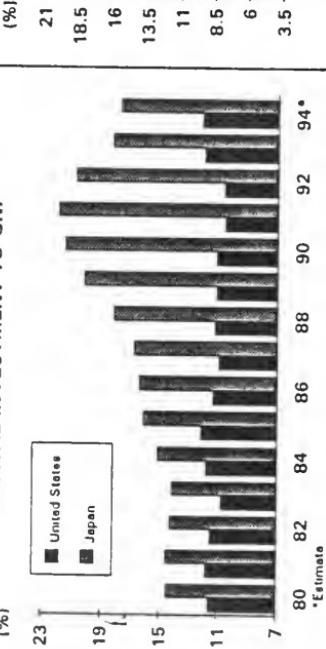
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DEBT TO GNP AND INTEREST RATE RISE\*



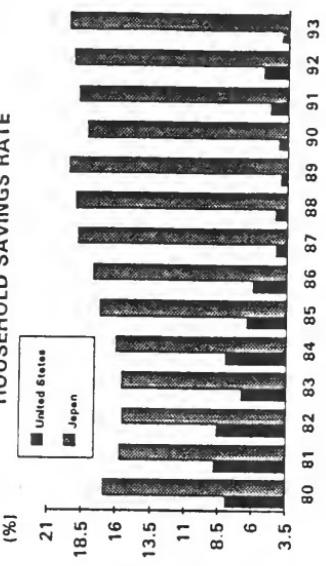
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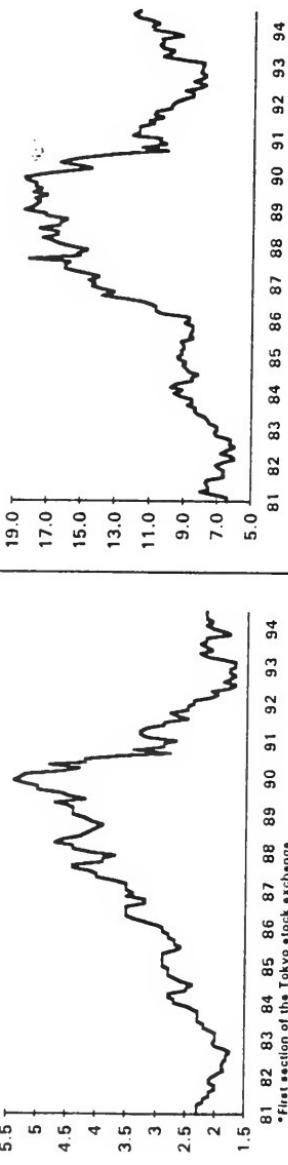
UNITED STATES AND JAPAN: REAL  
CAPITAL INVESTMENT TO GNP



UNITED STATES AND JAPAN: HOUSEHOLD SAVINGS RATE



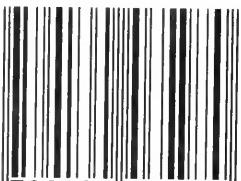
JAPANESE EQUITIES: PRICE TO CASHFLOW RATIO



\*First section of the Tokyo stock exchange



ISBN 0-16-046597-4



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